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## Initiating and Improving Business Relations in Serbia: Analysis and Recommendations

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# Initiating and Improving Business Relations in Serbia

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## Analysis and Recommendations

By  
Natasha R. Bogdanović

An Honors Thesis Submitted in Partial Fulfillment of the  
Requirements for Graduation from the  
Western Oregon University Honors Program

Prof. Paul Disney,  
Thesis Advisor

Dr. Gavin Keulks,  
Honors Program Director

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## Table of Contents

1) Acknowledgements.....	2
2) Table of Contents.....	3
3) Thesis Abstract.....	4
4) Introduction.....	5
5) SWOT Analysis.....	9
a) Strengths.....	9
b) Weaknesses.....	16
c) Opportunities.....	22
d) Threats.....	29
6) Model.....	33
a) Successful Management Techniques.....	33
b) Building Entrepreneurial Emphasis.....	40
c) Higher Education Reform.....	46
d) Integrating E-Commerce and Technology.....	54
e) Building Urban Accessibility.....	59
f) Removing Administrative Barriers.....	62
g) Prospects of EU Accession.....	67
7) Conclusion.....	69
8) Bibliography.....	74

## Abstract

The purpose of this project is to create a model for the effective initiation and improvement of business relations in The Republic of Serbia. Using Serbia as an example, different economic and cultural values will be analyzed to determine the suitability and benefits of doing business in this market. I will discuss what has been trending politically and economically in Serbia, neighboring countries, and the European Union (EU) to help fill an existing information gap. This information will be published in the interest of producing a comprehensive paper that is relevant for domestic operations, foreign investment opportunity, businesses with individual overseas assignments, or interests in expanding operations. This will include recommendations for improvement and demonstrate characteristics of the current environment for businesses that are interested in expanding their global presence to Serbia's unique market.

## Introduction

### *Country History*

The Republic of Serbia, nestled in the heart of Southeastern Europe, is a major prospect for attracting Foreign Direct Investment (FDI). This country has strategic trade partnerships, a convenient geographic location, and is rapidly growing into the role of being the central technology hub of Eastern Europe. It is well known for having a highly educated, multilingual workforce especially suited for mathematics and engineering. In recent years, Serbia has made headlines for its ever-cementing prospect as an EU candidate, sheltering and offering massive amounts of aid to Syrian refugees, and electing an openly lesbian, female prime minister. But still, many people maintain impressions from the North Atlantic Treaty Organization (NATO) air strikes ordered to intervene against civil conflict in the 1990's, the following war crimes trials, and the border clashes and violence associated with Kosovo's claim to independence. Serbia has been able to irrefutably transform a marred history into a bright prospective future though, like most countries, it would greatly benefit their economy and image in the media to stabilize relations with Kosovo and encourage greater minority group acceptance and support for minority rights. Historically, Serbia has shown dislike for western demands and influence; because of this international media coverage has been generally biased against the Serbian viewpoint.

To better understand the cultural dimensions within this country it is important to have a basic understanding of their recent history. Becoming knowledgeable in a country's history gives great insight to the political environment and stage of development. Serbia, for example, began the first stages of industrial development well into the 19th century after a long history of conflict with Turkish military forces. At the beginning of the 20th century Serbia became a main battleground of World War I and came under German Nazi

occupation. They suffered massive losses in manpower, infrastructure, and industry; for that reason, they became dominantly agricultural. In 1945, Serbia, as part of Yugoslavia (conglomerate of Balkan countries), became a socialist federal republic under the leadership of Josip Broz Tito until his death.

With the passing of Tito in 1980 a power struggle ensued, and the Federal Republic of Yugoslavia began to break apart. Kosovo Albanians recognized an opportunity to proclaim an independent state amid the chaos and weakness of government. In retaliation, the United Nations (UN) imposed harsh sanctions on Yugoslavia, effectively cutting them off from the rest of the world, and NATO ordered airstrikes forcing them to withdraw forces from Kosovo. Critics argue that the NATO air strikes were illegal according to international law because of the high level of aggression taken against a sovereign country without the support of the UN security council. This act resulted in thousands of injuries and deaths, many civilian, and the destruction of schools, health centers, cultural monuments, bridges, industrial plants, public buildings, private businesses, and military operations (BBC, "Kosovo: The Conflict by Numbers"). G17 Plus, originally founded as a non-governmental organization that focused on economic issues estimated that damages related to the bombings totaled around 30 billion dollars (B92). The New York Times cited damages of 100 billion dollars (Wren).

Shortly after the NATO bombings, Serbian citizens elected reformist candidates and joined the UN. In 2004 Boris Tadić was elected president of Serbia representing the democratic party and running on a pro-European platform that promised to bring the country closer to the EU. Tadić was re-elected in 2008 with the same platform, meanwhile the state refused to acknowledge Kosovo's claim to independence. While the Serbian parliament and president worked to improve relations with Croatia by opening talks and

publicly apologizing for past conflicts, 2011 marked the initiation of serious EU membership talks. The European Commission demanded normalizing ties with Kosovo as a precondition for acceptance.

In 2012, Serbia gained official candidate status and unexpectedly elected a nationalist leader backed by both the progressive and pro-European democratic parties, ousting Tadic, the former incumbent. Aleksandar Vučić was elected in 2014 and continued the partnership between the progressive and socialist parties. At this time relations with Kosovo were at the top of the political agenda, and official talks between the two countries had begun. In 2017, Vucic stepped down to become the “largely ceremonial” President of Serbia, and Ana Brnabic was elected to Prime Minister (BBC, “Serbia Profile”). In 2017, Claude Juncker, President of the European Commission announced that the “strategy of successful accession” set a prospective of accession to the EU in 2025, largely the result of focused efforts from President Vučić over the years (Juncker).

### *Relevance & Significance*

The research in this project is meant to present information to the academic and business community with a specific interest in encouraging FDI inflows to a variety of Serbian markets that show potential for expansion. This project does not start a dialogue on the topic but rather contributes to the existing dialogue concerning the Serbian business climate. The conclusions presented in this project will help to bridge a significant information gap that exists and break down a cultural barrier between Eastern Europe and The West, largely because of this information gap. It is evident that an information gap exists because of the scarcity of reliable news sources presenting current information about Serbia and the more qualitative elements of Serbian culture and history. Where information



does exist, much of it is outdated and does not reflect the rapidly changing environment of Eastern Europe.

This information will help assist potential investors in navigating entry to the Serbian market. By presenting a variety of research-based conclusions and opinions of local sentiment, this will represent a modern compilation of information covering many aspects of Serbia's business, political, economic, and cultural environments. Those interested in entering a new market need to have an understanding of the local market and the people that inhabit it as they will usually constitute the body of employees, management, and be responsible for some consumption. In marketing, we see that "one of the most recent trends in learning about customers is the rising use of ethnography, a qualitative research technique designed to understand cultural phenomena such as communication, shared meanings, and personal interest" (Ferrell and Hartline 117). I will use the six Hofstede Dimensions developed by Dutch social psychologist Geert Hofstede: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence to offer insight into the cultural mindset of local Serbian citizens.

This information will also be useful for professionals interested in overseas assignments in Serbia because of the broad nature of the project. Overseas assignments are useful instruments for businesses to generate and transfer knowledge across the globe, while providing a competitive advantage in many areas and developing the capabilities of those employees who gain international experience. Sending employees to work abroad requires them to have a high level of self-awareness, motivation, empathy, and social skills; equally as important, "the selection and retention of a manager with high emotional intelligence depends on a good cultural fit" (Hadzić 142). For this reason, professionals interested in building the requisite skills to operate in an international marketplace must be well educated

in all aspects of their new environment and would therefore greatly benefit from a compilation such as this.

### SWOT Analysis

A SWOT analysis will be used in order to concisely segment similar types of information in a format that is commonly used in the business industry. Internal factors (strengths and weaknesses) and external factors (opportunities and threats) will be separately analyzed in this SWOT analysis, as this will help identify characteristics and causes more effectively. This analysis will contribute to the development of a strategic plan for identifying and absolving issues related to the business environment and FDI in Serbia. Strengths in the Serbian market exist largely because of a recent trend in privatization, economic and political development, and focused actions towards overcoming barriers. There have been a number of developments in the interest of attracting and increasing FDI to Serbia's untapped market such as legislative progress, administrative efficiency, and urban development.

### Strengths

#### *1. Market Growth Potential*

Emerging market economies (EMEs), such as that of Serbia, are highly targeted segments of the world's economy because multinational enterprises (MNEs) have increasing motivation for entering these markets. Published under the International Monetary Fund (IMF), the Capital Markets Consultative Group has cited that investors' greatest motivations for entering EMEs is the prospect of market size and growth, wage-adjusted productivity of labor, availability of infrastructure, reasonable and stable taxation, and a stable political environment that is willing to work with foreign businesses (The World Bank Group). These

motivational factors stress the importance of political progress in emerging economies, especially the elimination of bureaucratic red tape that can elongate processes and make them costlier. Emerging markets are associated with high risk of corruption, lack of stable legislation, and inhibited development of infrastructure; the following sections will explore these weaknesses and threats to foreign investment. Serbia has two major strengths associated with its market and availability of labor: it has an affordable workforce (with a standing potential to greatly increase output) and growing need for foreign investment to serve domestic demand for goods and services-- both attributes that are highly sought after by investors.

FDI has the potential to create a mutually beneficial relationship between investors and the Serbian market. Serbia is a developing and relatively unsaturated market that is also experiencing rapid privatization. Most countries in the South East European (SEE) area are promising EMEs who would benefit from increased FDI. Policy makers argue that FDI is an essential tool to “finance development, increase productivity and import new technologies” (Vukanović 62). While businesses gain a competitive advantage, Serbia gains these aforementioned qualities. In 2018, the U.S. Department of Commerce published a statement showing that “Serbia is open to FDI and attracting FDI is a priority for the government” (U.S. Department of State). Through the powers of government, Serbia has made efforts to make their growing FDI interests clear. While FDI could help bring improvements to technology, infrastructure, and stimulate the local economy, it is also a good opportunity for investors to sell their products in new markets, realize higher growth rates, and diversify income (Kuepper).

## 2. *Legislative & Administrative Progress*

The harmonization and stabilization of laws will be an important step in balancing Serbia's local governance with the expectations and standards being set across Europe and other developed nations. Serbia has shown a clear desire to pass legislation that encourages growth of foreign investment, entrepreneurial efforts, and autonomous higher education institutions. From 2014-2015 Serbia passed laws full of incentives for investors including eliminating discriminatory practices against foreign investors, allowing the repatriation of profits and dividends, and safety against government action like expropriation among other things of similar nature (U.S. Bureau of Economic and Investment Affairs). While in 2012 they increased the corporate-profit tax rate from 10% to 15%, it still remains one of the lowest in the world and is competitive with other countries in the SEE region (Čadež). It is also notable that the number of procedures and days required to establish an LLC in Serbia is less than the average for Europe and Central Asia (The World Bank Group). The following figure shows taxation rates between Serbia and comparative neighboring economies. It shows that Serbia ranks lowest in all categories including: corporate profit tax, value-added tax, salary tax rate, and average gross monthly salary. Ranking low in taxation provides a competitive advantage for Serbia when it comes to attracting FDI. Individuals and businesses benefit from low taxation, though gross monthly salary in Serbia is expected to rise.

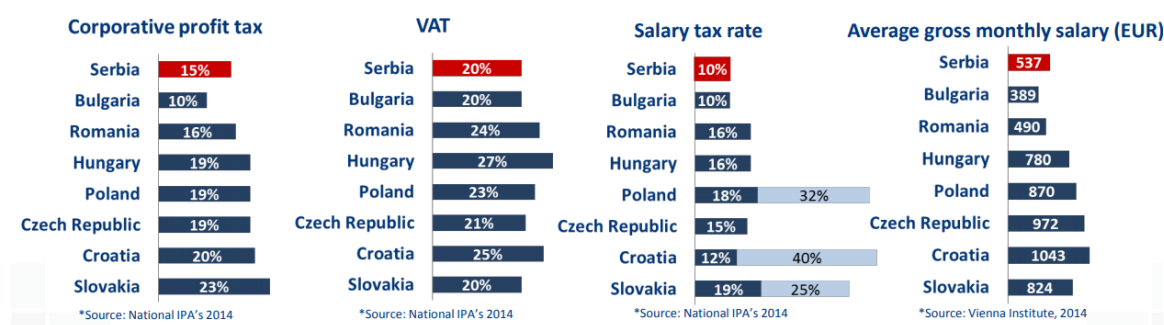


Figure #1: Tax Statistics in Serbia 2015 (Čadež)

As part of the concessions involved in joining the EU, Serbia will be required to reverse a law enacted in 2006 which bans foreign citizens and companies from owning agricultural land within the country. While political leaders in Serbia have made statements against this accession commitment fearing that major areas of land will be sold out to foreign entities, many people and businesses already overpower this rule by establishing an entity in Serbia that is legally allowed to buy the agricultural land; because of this loophole, it seems likely this law will not last long enough to deny entry to the Union (Gajin). Based on the principle of free movement, joining the EU means that all citizens of member countries should receive the same national treatment and EU nationals should be allowed the same rights that Serbian citizens will be awarded in their countries which further dismisses any strong basis for refusing the concession. Formal accession plans are being drafted at the time of this project (2018), and this has already had positive effects on the political and business climate of Serbia. Joining the EU is a key strength for the Serbian market because it will help to stabilize the market and balance trade deficits (Juncker).

Serbia's Law on Foreign Investments (2002) was an important development for investor relations (Federal Republic of Yugoslavia). This law explicitly states the guaranteed rights of foreign investors including freedom of investment, national treatment, legal security, freedom of currency conversion, and profit transfer. This is legally important for businesses as it creates transparency and accountability. It also marks one of the first clearly documented and published efforts towards reducing government corruption.

The Law on Foreign Exchange Operations (2006) requires permits for any business wishing to import or export goods in Serbia, but also offers many benefits to foreign investors such as the inclusion of exceptions to make processes quicker and free of unnecessary legal intervention (Republic of Serbia). It also states that "imported goods will

receive equal treatment to the local goods,” which is an attractive situation for investors. Though easier importing may not have the locally desired effect on trade deficit, it will encourage businesses to move intermediary goods that can be used as raw materials for new products, and to bring more advanced technology into the country. Serbia is a strong candidate for an increase in value-added manufacturing operations. Strengths such as domestic ease of import and export, an available workforce, and affordable buildings and properties make good conditions for businesses to ship in parts and raw materials and finish them into a new product to be exported.

The Law on Capital Market (2011) was an important establishment for the “protection of investors, ensuring that the capital market is fair, efficient and transparent, [and] the reduction of systemic risk on the capital market,” (Republic of Serbia). This law was amended as recently as 2017 to be more consistent with EU legislation, and it is clear that the objectives of this law are to create a more stable financial environment through the reduction of risk and increased security and transparency.

Serbia has also established a number of regulatory bodies and agencies that continue to develop transparency, grant autonomy to higher education institutions, and work towards creating an environment that is economically stable. These actions are consistent with the expectations set forth for Serbia’s accession to the EU and show the determination and exemplary progressive attitude held in this transitioning political environment. Other notable laws that are relevant to the security and development of business include: Individual Income Tax Law (2010), Corporate Profit Tax Law (2010), Law on the Protection of Competition (2013), Law on Construction and Planning (2014), and Law on Privatization (2014). While most of the legislation included so far has shown general favorability for investors, the Serbian government provides additional incentives for businesses from

industries that are of higher value to the state such as renewable energy, new technologies, logistic centers, customer centers, automobiles, and chemicals (International Business Publications).

### 3. *Geography & Urban Development*

Serbia is situated in a particularly strategic location within the SEE region. It is surrounded by viable trade partners and within operational distance to a multitude of important countries and cities for trading and base customer reach. Serbia is located on the border of Europe and Asia, and while it is commonly situated in the Eastern European category, its southern positioning also brings it into the Mediterranean region. As shown in the following figure, major highways and rivers pass through Serbia providing access to affordable transportation. Within Serbia there are a number of burgeoning metropolitan areas like the capital, Belgrade, with a population of almost 1.4 million, Novi Sad at 350,000, and Niš at 257,000 (The World Bank). Being centrally located, Serbia's neighboring trade partners include: Hungary, Romania, Bulgaria, Macedonia, Kosovo, Montenegro, Bosnia and Herzegovina, and Croatia. The heart of Serbia is only within a few hours by air to the most important cities and trading centers of Europe.

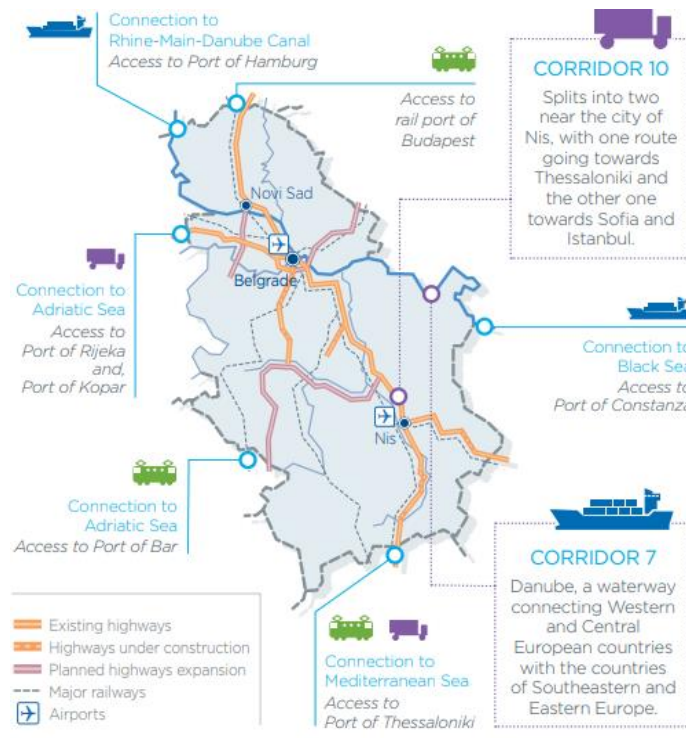


Figure #2: Major Transportation in Serbia (Development Agency of Serbia)

Transportation is an important factor in business because it facilitates the movement of products and people to necessary destinations. The utility of free trade agreements (FTA) and ease of export is diminished without proper access to transportation. Likewise, countries cannot survive or grow economically solely on domestic consumption and availability of resources. As seen in the figure above, Serbia has a variety of transport methods throughout the country. Some, like the Danube, have been historically relevant trade routes for centuries, connecting the East and the West. Corridor 10 is one of the most significant highways in Europe. It stretches from Austria to Greece and has four additional branches that expand the roadway throughout Europe. According to an article published by the New York Times, China has plans to build a route called the New Silk Road which will allow China to transport goods to Western Europe, though Chinese influence may hinder efforts to Westernize and clash with initiatives being set by the EU (Surk).



Serbia has many cost advantages over other countries in Europe, especially those that are already members of the EU. According to EUROSTAT, Serbia has the lowest costs of electricity, gas, other fuels, and landline telephones among 37 European states (Development Agency of Serbia). Leasing or building facilities is also an affordable endeavor.

Serbia's current trade agreements are another major strength of the market. They are a member of the Central European Free Trade Agreement (CEFTA) which aims to facilitate and grow trade among member states and allows access to a combined population of 30 million. Entrance to the EU would affect current trade agreements and connect Serbia to more countries in Europe, but there has already been an agreement in place for mutual customs-free/duty-free trade for almost two decades. In 2008, this agreement was augmented by the Stabilization and Association Agreement (SAA) and consequent Interim Agreement on Trade and Trade-Related Issues in preparation of further integration into the EU system (U.S. Department of State). Serbia is currently a beneficiary of the Generalized System of Preferences (GSP) for both the United States and Japan which provides them with a preferential status in exports and duty-free access to their markets. They also have free trade agreements with nearby countries: Russia, Belarus, Kazakhstan, and Turkey. Membership to the European Free Trade Association provides further connections between Serbia and European countries that are situated on the Northwestern side of Europe including Iceland, Liechtenstein, Norway, and Switzerland (U.S. Department of State).

## **Weaknesses**

While Serbia is now a viable market, there remain issues that need to be addressed to create a more functional economic system and make the environment more attractive for economic growth and FDI. The greatest weaknesses in this market are economic issues,

excessive government regulation, corruption, and lack of growth in the entrepreneurial sector. Serbia has a statistically demonstrated need for increased FDI. Professor Zvezdan Vukanović at the University of Donja Gorica has shown that while need for foreign investment is present at a per capita FDI level less than \$500, Serbia received only \$167 per capita in FDI in 2010. This shows that a need for FDI is present and would encourage progress on the development of Serbia's economy. It would also present opportunities to address the high level of unemployment and low level of income-generating opportunities in urban and rural areas that are prevalent throughout the country (Hollinshead 138). Most of the weaknesses that need to be addressed will rely on government action and public policy reform, as well as upgrading the current infrastructure capacity so that it may accommodate modernization and incoming business operations.

### *1. Economic*

Trade balance is the difference between the amount of goods exported from a country and the amount of goods imported into a country. A trade surplus signifies that a country is exporting more products than it imports and is a sign of a healthy, productive economy. It also means that whatever that country is producing is being demanded by consumers in other countries which helps to strengthen currency and create fiscal inflow. While this leads economic analysts to believe that trade deficits have a negative impact on economic growth, having a trade surplus is not always an indicator that an economy is performing well. States may run a trade surplus amid a recession or stagnant economy. Christie Romans points out that, "the last time the United States ran a trade surplus, Gerald Ford was president and the country was in the middle of a recession. Japan had a \$27 billion trade surplus last year (2017) with the rest of the world, yet its economy is stagnant. It hasn't been able to export its way out of what's known as its 'lost decade' of economic growth"

(Romans). Unfortunately for Serbia the trade deficit does not exist because of domestic consumers buying foreign goods and causing a monetary outflow. It exists because of a lack of productivity and lack of strong domestic currency.

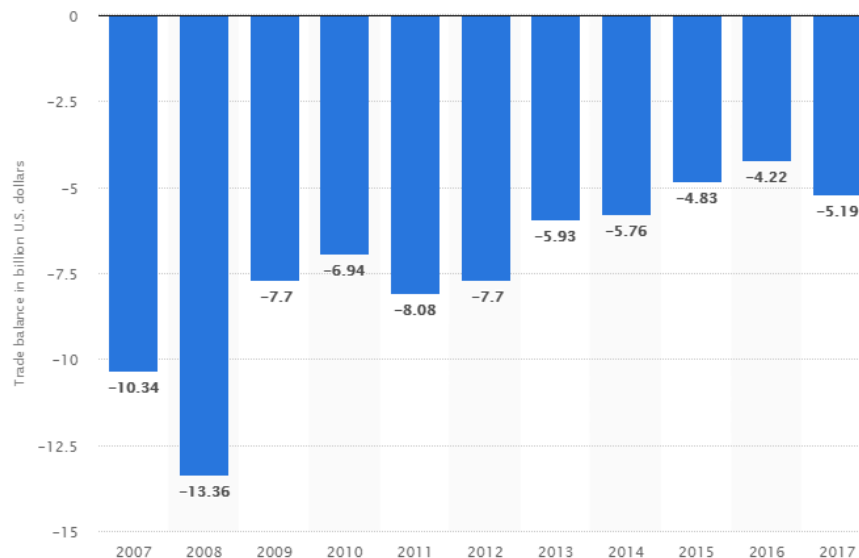


Figure #3: Trade Balance of Serbia 2007-2017 (World Trade Organization)

Serbia's trade deficit has been an issue for over a decade. The trade deficit has been trending in the right direction since the global 2008 recession and forecasts for the following years show similarly positive-trending outcomes. This deficit would not necessarily directly impact business operations but is a notable characteristic of a struggling economy, and lack of domestic consumption. The government has recognized that FDI would have an immediate, positive impact on trade relations, and this is partially why they are interested in expanding these relations. Increasing production within Serbia would increase the number of exports and further stabilize the trade deficit.

High inflation rates have been another notorious issue plaguing the Serbian economy in recent decades. The government overprinted cash resulting in inflation rates up to 95.6% in 1996 compared to 3.34% in the EU during the same year (World Data). This negatively impacted employment and forced citizens to use other currencies like euros and dollars

instead of the local dinar which had dramatically lost value in a very short amount of time and become entirely devalued. Unemployment remains one of the most deeply felt economic issues for the Serbian people, especially recent graduates and young adults. As of 2016, Serbian inflation rates were calculated around 1.12%, compared to 0.22% in the EU, demonstrating considerable improvement and stabilization of economic monetary policy, and only a small stagnation behind EU member state rates (World Data). While still higher than other areas of Europe, policy makers have identified the continued development of economic theory as a key characteristic of monetary stabilization.

Another major concern for economic stability is the high level of sensitivity to weather events and its effect on the majorly dominant agricultural industry. In recent years Serbia has made international headlines for extreme flooding and heat waves. Climate extremes are especially volatile in this geographic area because they rely heavily on agricultural output as it is Serbia's largest economic sector. These events are becoming more frequent and cause damage to infrastructure as well as inhibit economic output and growth. Climate extremes will likely be an increasingly salient issue, so the Serbian government is proactively taking measures to prevent disaster. In 2017 the government established the following initiatives in the interest of "building resilience to climate and disaster risks": (1) institutionalizing disaster risk management, (2) assessing risk and recovery needs, (3) securing financial protection, (4) building a comprehensive strategy for resilience, and (5) leveraging technology (Milutin). These measures work to identify the impacts of extreme climate events, identify high-risk areas using digital terrain models, and build funds for prevention and recovery (Milutin).

## 2. *Government*

According to Transparency International, who publishes the annual Corruption Perceptions Index (CPI), ranking and analyzing countries based on transparency and government corruption, Serbia scores 42 points on the corruption index ranging from 0-100. This score signifies a moderately corrupt government, similar to countries like China, India, and many others in Latin America and Africa. Relative to the SEE region, Serbia scores just below Hungary (45) and Bulgaria (43), and just above Turkey (40) and Kosovo (39); Slovenia scores high for the region at 61, but all the countries in this area currently display moderate corruption levels as shown in the figure below (Transparency International).

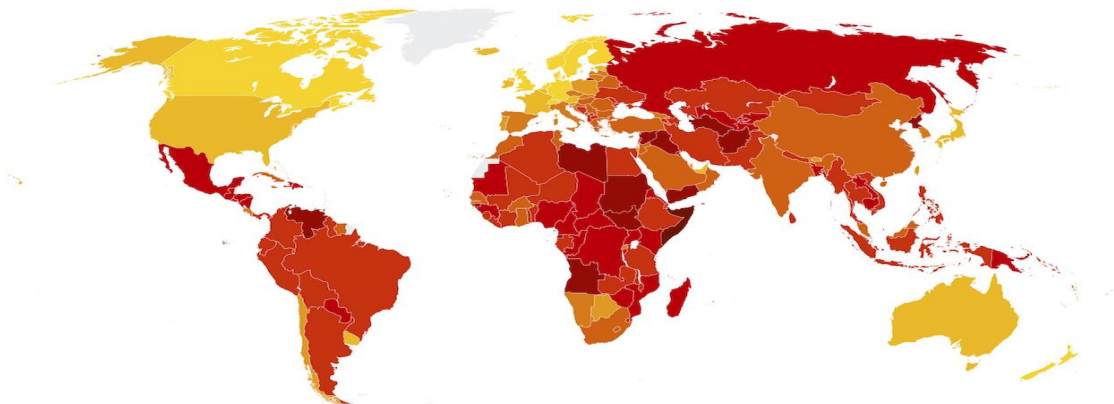


Figure #4: Corruption Perceptions Map (Transparency International)

Corruption is a major internal weakness within Serbian government. The centralized government structure has been known to hold power over institutions that should be otherwise autonomous, like higher education institutions. Bribery and other illicit activities occur regularly though political party shifts. Determination to comply with EU concession agreements has rapidly expanded efforts to diminish the presence of corruption. Government corruption has been most pervasive in Serbia when it comes to “public procurement, natural resource extraction, government-owned property, and political influence/ pressure on the judiciary and prosecutors” (U.S. Department of State). This goes

to show that the local government is very protective of the land and public buildings and can cause issues for people and businesses who need to use the court system.

The judicial system is especially criticized because of corruption and biases. This is a detriment to attracting FDI because it is an especially volatile environment for foreigners who are not familiar with the system, and do not have the special relationships needed to overcome government barriers and scrutiny. These biases extend as far as building permits, land acquisitions, or priorities for registration and taxation all of which elongate the process. In some cases, bribery is essential to conducting business successfully—a characteristic of business operations not unlike some other countries.

Bureaucratic red tape poses a major threat to developing healthy business relations because it extends the cost of starting and maintaining business operations in Serbia. Slow government processing increases the startup cost for local and foreign businesses and can only be changed through major internal reforms such as the development of e-government services which provide more transparency. Receiving business loans can also be an issue for many entrepreneurs and has been shown to delay the growth of local businesses. Acquiring loans is a major constraint to the success and stability of those businesses that receive loans because they are often volatile and require excess collateral (Stefanović). Many business activities require licensure and registration from government agencies. Lack of access to funding is amplified in combination with government licensure requirements and labor requirements (Vukanović 80). Delays, corruption, and lack of transparency are the major concerns with government in Serbia, and the government has responded by making an effort to change this. Legislation passed in recent years is aimed at making the public sector more efficient and reducing the cost and amount of time it takes to complete inspections and register businesses. It is advised to monitor the progress of these efforts. It is one thing to

make legislation and be motivated to make improvements, but another to enforce the rules fairly in due time.

As a result of the number of fundamental changes taking place in Serbia's political and economic climate, it can be difficult for citizens and shareholders to stay informed of the many transitions and changes in legislature. While policies and laws are being harmonized with those of the EU, which will mean standardization and commonality, the country is currently in a state of rapid change and it is unknown how well new laws will be regulated and enforced. These changes will also test political division within the country. Most of this reformation has been implemented since 2014, each with a specific strategic purpose to benefit internal policy and international relations (BTI). This transitional state is in the interest of the country's progression towards a more democratic and functional state. If enforcement of these laws is as successful as implementation, the political and economic landscape will see improvements in efficiency and foreign investment attraction, which is likely to increase the quality of life for local citizens and contribute to annual GDP growth.

## **Opportunities**

### *1. Increasing Employment*

FDI is an attractive relationship because it can bring employment opportunities to specific regions by the thousands. Increasing quality of life for citizens through employment opportunities and higher wages is a goal of the current Serbian government, and while they have made some progress in bringing jobs to the area by attracting large foreign business operations units, there is still an existing need and opportunity for employment. According to The World Bank, Serbia is the largest economy in the Western Balkans, and employment went up by 4.3% in 2017, though unemployment still remains high overall (The World

Bank“Employment in Serbia”). The region has recovered from the global recession of 2008, and forecasts for coming years look hopeful in terms of increasing employment and overall growth.

The main goals of the Serbian government for the years 2015-2018 have been “(1) to maintain macroeconomic stability, (2) to reverse further debt growth, (3) to continue implementing structural reforms, particularly with regard to public enterprises, and (4) to improve public sector efficiency” (The Republic of Serbia, “National Employment Action Plan”). In 2015, the year of implementation of these goals, Serbia’s unemployment rate was 17.7%; in 2018, the end of the desired goal-period, Serbia’s unemployment rate has dropped to 11.9% (Statistical Office of the Republic of Serbia). The government’s focus on employment programs has shown clear improvements to statistical data.

To address desired improvements in employment and social policy in Serbia, policy goals have been set through The Employment and Social Reform Programme (ESRP) to “(1) prevent high increase in unemployment, (2) decrease the overall inactivity rate and increase the employment rate, (3) reduce labour market dualism, and (4) improve the status of youth in the labour market” (The Republic of Serbia, “National Employment Action Plan”). Supporters in developing this internal policy include the ILO, World Bank, and European Commission. Measures implemented in 2017 through this social reform program to improve employment conditions include job matching services to aid persons in searching for employment; professional development services including trainings, workshops, and counseling; the Annual Further Education and Training Programme; offering a payment to recipients of unemployment benefits who become employed; and bringing employment to people in the hard to employ category, including those with disabilities (The Republic of Serbia, “National Employment Action Plan”).



Low employment is dangerous for the country's fiscal health because it inhibits the amount of production within the country lowering overall GDP and forcing highly skilled and educated workers to leave the country in search of better opportunities, a concept coined by the Royal Society as "brain drain". Unstable employment causes social unrest and unfairly burdens younger generations which can be a growing issue for government leaders if not handled properly. This is an opportunity for Serbia in terms of realizing potential.

Having a young, educated, and available workforce is an important element for attracting the right type of MNEs and encouraging growth in sought-after business industries. Some of the top sought-after industries in Serbia include agriculture, technology, chemical, automotive, machinery, mining, and energy (Gligorijević 136). The distribution of enterprises within Serbia as of 2015 stands at: metal processing 44%, packaging 25%, electronic 19%, and IT 12%, with agriculture also being a major sector (Radosavljević, et. al 933). Aforementioned government policies that incentivize FDI from sought after sectors will play an important role in attracting foreign business. At this time, the government is particularly interested in the information and communications technology market, which has been Serbia's fastest growing sector for the last ten years (U.S. Department of State). The technology sector has potential both with increasing domestic consumption and for developing strategic business units like call centers and software development centers. There is also an opportunity for improvement of e-government and other e-services such as e-commerce, e-health, and online education. While e-government would help address issues with transparency and time-limitations, online education would help expand education to non-traditional students which is an area needing improvement. There is also opportunity in expanding existing Serbian companies who have already asserted their strength and innovation in the global

market. With the right partnerships, local businesses could gain the funding and market expertise to develop into major global enterprises.

## 2. *Equality*

Despite existing stereotypes that Eastern Europe may lag behind other developed nations when it comes to political modernization, Serbia has demonstrated better performance in areas of equality, such as gender equality and minority rights than countries in the West like the United States. That is not to say the area has not experienced major setbacks. While gender equality exists in participation and attainment of education in Serbia, and the gender pay gap sits at 86%, compared to 78%-82% in the United States, women's employment remains significantly below men's as of 2015 (The Republic of Serbia, "National Employment Action Plan"). This may be partially due to traditional gender role associations, poor childcare infrastructure, and lack of employment opportunities in rural areas. Serbia's current prime minister, Ana Brnabic, is the first female and first openly lesbian prime minister of the country, and fifth ever in the world. This momentous milestone was coupled with Ana's attendance at the Belgrade Pride Festival in 2017, the first head of government in a Balkan country to make such a gesture (Aeberhard).

Minority issues have been a major problem in the Balkan area for most of human history. A highly diverse population within the region and historically violent conflicts and civil wars among groups have defined a number of major transitions that have taken place over the last 50 years. A push towards a "homogenous" ethnic Serbian country in the 1990's led to extreme exacerbation of minority rights. A 2014 study from the University of Amsterdam on multiculturalism and minority rights suggests that Serbia should take two paths to improve human rights: one to implement explicit and transparent efforts from within the Serbian governing bodies, and the second to encourage a shift away from societal

conservatism to suppress xenophobia and intolerance (Neibauere). Serbia's candidacy for EU accession has been a driving force for the adoption of policies to help improve human and minority rights.

National minority rights have been gaining traction in recent years, and while Serbia is one of the most religiously diverse countries in Europe, there is still room to resolve regional disputes and harbor diversity and inclusion in a social context (BTI). Equality is an area of opportunity for Serbia because they have a chance to lead countries in the region and set an example for others to follow. In 2016 Serbia showed initiative towards gender equality by becoming the first non-EU state to assess gender equality with a given set of indicators from the Gender Equality Index provided by the European Institute for Gender Equality (EIGE) (European Union). This shows one of the many ways they may lead other countries while achieving significant milestones themselves.

### 3. *Urban Growth*

Rapid urbanization has been taking place in Europe with strong force for the last two decades. Going into the future, it will be essential that developers carefully consider urban planning in designing spaces. Serbia has a combined need for (1) more infrastructure that allows businesses to enter the area, and (2) planning underused urban land that has been developed but could be used more resourcefully. Organization of urban land will also require reliable transportation to move citizens across cities and rural areas. In this respect, Serbia has already set underway a few projects that are expected to bolster interconnectivity and the availability of high-quality spaces. Belgrade, the largest city in Serbia, has traffic congestion and limited public transport; urban planning such as the Belgrade Metro promises to efficiently allow passengers to travel throughout the area.

The first plans for the Belgrade Subway were developed in the 1930's and were promptly forgotten during WWII (Aleksić). Some development continued following the war, but no viable plans were finished until the 80's. At this point a timeline had been developed and an increase in local taxes to raise funds for the project was passed. After raising \$200 million the plan was deemed too expensive and canceled indefinitely (Aleksić). In 2009 Russia provided a 500-million-euro loan for the subway project but construction was never finished and plans at this time were not yet finalized (Avakumović). As of 2017, no further construction has taken place, but with French financial assistance it is expected to continue within the next few years (Aleksić). Critics worry that the plans are not optimized for the space available, and that low growth rate and complementary low number of commuters may hinder profitability of the rail system for specific routes-- however, construction of the subway remains a strong point of candidacy in local elections.

Serbia also has plans to expand air transport through “construction, reconstruction, maintenance, and management of infrastructure of Belgrade Nikola Tesla” which will introduce additional terminals and long-haul flights to accommodate a larger number of passengers each year; the contract for financing and development has been given to Vinci Airports from France and was officially signed in late March of 2018. This type of air infrastructure development is expected to also affect the Niš Airport, since businesses are expressing growing interest in using this hub as a commercial transport terminal.

As mentioned earlier, China has plans to invest heavily in Serbia infrastructure. As of June 2018, the Chinese government is prepared to invest one billion euros into a variety of infrastructure projects within Serbia (B92). China's interest in creating efficient roadways through Europe is to open pathways to transport Chinese goods into the heart of Europe and build political relations with countries to the West. These investments are an important

opportunity to modernize infrastructure and optimize the availability of efficient transportation but may come at the cost of sharply increasing public debt and ideological division from the West, especially the EU who has reservations about the growing relationship between the two countries.

Similarly, the Serbian government has plans to utilize major external financing to create the “Dubai of the Balkans,” or rather, an ultra-luxurious development on the Belgrade Waterfront set to include a number of residential apartments, hotels, skyscrapers, and shopping malls (Surk). There have been some controversial issues throughout the unrolling of this project as developers have forced families out of their homes in order to use the space, which was promptly met by protests against the project (Surk). The project is being funded by Eagle Hills Properties, an Abu Dhabi based company. While the high-priced residences and retail spaces may clash with local sentiment over the area, this development will provide an opportunity for some of the world’s leading brands to establish their presence in the Serbian market, and ultimately position themselves in the foothold of Eastern Europe.

Amidst contest from local families, a few of the massive buildings are nearing completion and posters line the waterfront depicting buildings that will be built sometime in the next 30 years using money from the Gulf. Urban developments are essential to providing high-tech rental spaces that can accommodate a variety of businesses to the heart of Serbia. As opposed to providing a low-cost environment that is bound to attract business enterprises interested in taking advantage of low-cost production, the Serbian economy will have the capacity to shift towards high-value products and services that take advantage of the educated, multilingual workforce, and create jobs within technology sector enterprises.

## Threats

### 1. *Kosovo Conflict*

With respect to external threats to a thriving business environment in Serbia, the Kosovo conflict remains a globally-recognized event that has tied up the political environment inhibiting relations with the EU by demonstrating unwillingness to quickly conclude negotiations. Resolving the Kosovo conflict and strengthening relations with neighboring countries is a stipulation of EU accession and will change negative global perceptions of civil war and violent disagreements in the Southern territory. Lead politicians in Serbia have expressed a strategic opinion to avoid conflict and harbor peace among the countries. In 2013, the Brussels Agreement was passed for the normalization of relations between Kosovo and Serbia. The agreement was initialed, not signed, by the Prime Ministers of both countries and enacted into law by the Kosovo government, but remains to be implemented by both nations. This legislation has appeased the EU, but tensions still exist in the area to the extent that travel across this border is not suggested due to complications with paperwork and frequent military occupation. As of 2018, Serbia's acceptance of Kosovo independence was explicitly stated as a condition of EU accession, and has yet to happen, though it is expected a more finalized deal will be implemented by the end of 2018 (Sekularac).

### 2. *Refugee Crisis*

A secondary, but also important, threat to economic stability in Serbia is the refugee crisis that is responsible for some 7,000 current refugee inhabitants in Serbia as of 2017, and millions of additional travelers who have made their way through the country and further into Europe (United Nations). Serbia has been commended by global organizations for their positive role in harboring refugees and offering shelter and aid for thousands of homeless

travelers. Government reception sites house the refugees and offer food and healthcare. Services aimed at integrating refugees into normal lives offer access to vocational studies and general education. While it has been an exceptional opportunity to show goodwill, it has also been a major economic burden, even with financial aid from external organizations to help fund refugee acceptance. Most other countries responded by tightening immigration laws and borders—in Hungary going so far as to build a fence to keep refugees out of the country and stop them from passing through into Europe (Penso and Gabriner). Fierce refusal of refugees by many European countries put a stronger burden on Serbia, who was expected to accept and process many thousands of refugees while other countries refused. As of late 2018, most of the refugees have traveled further into Europe and signs of refugees in major urban city centers in Serbia are not visible.

### 3. *Economic & Financial*

Serbia has experienced an impressive increase in fiscal health over the last few years as the local government has struggled to bounce back from the 2008 recession, curb inflation rates, and limit public spending. Statistics concerning monthly wages, GDP growth, and debt ratios show positive changes indicating that efforts from policymakers are having the desired effect, but economic and financial stability remains a general threat to Serbia's continued domestic growth. The massive public sector has created a large amount of debt for the Serbian government, and, in conjunction with foreign aid for massive urban development projects, this debt has reached its way to the list of economic priorities.

If Serbia's investments do not provide the anticipated economic growth, they may have trouble financing the government and public programs to a greater extent in the future. External financing is popular because local currency valuation favors most major foreign currencies. While the present currency exchange situation is favorable for attracting business

and exports, it makes it difficult to import non-domestic goods because of the low value of the Dinar. This is a threat to business operations in Serbia because goods used in the value chain are more expensive to import using the domestic currency.

#### 4. *Competition*

Other countries close in geographic terms or in similar stages of development may pose a threat to Serbia's economic development and ability to attract sufficient FDI. For example, the growth dynamics of trade partners has a real and lasting effect on imports and exports for Serbia. If one of Serbia's main trade partners such as Russia, Italy, or Germany were to have a shift in economic or political standing, this would have a major effect on Serbia's GDP; even a change in dynamics of a smaller partner, such as a neighboring country, could negatively affect business operations in Serbia. This kind of adverse economic effect could be negated by increasing domestic consumption and shifting focus on exported items to value-added products that increase profitability for the domestic market. Trade policy is sensitive to local and global conditions and is often subjected to rapid changes in political leadership, because of this, it is important to realize greater independence from trade and strengthen the internal market so as to reduce dependence on other countries.

Serbia must also pay close attention to the strengths and weaknesses of countries in direct competition for the same resources and capital. Most of the competition comes from larger EMEs, such as Brazil, India, Mexico, and China, who have a large workforce, relatively low costs, and a greater population for domestic consumption. Serbia is also susceptible to high competition in saturated, highly sought after industries like technology and value-added manufacturing which are also becoming targets for countries who are looking forward to sustaining a local, highly educated workforce, or strengthen the variety of current export products (decrease low-value exports, increase value-added exports). These countries are



strong candidates for the same business expansions or FDI, and while Serbia benefits from geographic location, high-quality real estate, a highly educated multilingual workforce, and important trade partners, it is relatively small in size and population. Increasing exports in general will be important for Serbia's competitiveness and overall GDP growth.

Manufacturing industries need to grow through exports and domestic consumption in order to become competitive and sustainable in the larger global market. The significant amount of underproduction that is currently taking place is a contributing factor of high unemployment and low wages. According to Eurostat, Serbia comes in last place among European countries for unemployment.

Serbia, like any other country, is also susceptible to the effects of monopolistic behavior exhibited by large companies. Entrepreneurship is dampened by the saturation of markets due to big enterprises who hold the vast majority of the market share. When markets are only serviced by a few large businesses, prices and quality drop in competitiveness.

## **Model for Initiating and Improving Business Relations**

### *Successful Management Techniques*

In many ways, Serbia was not prepared for major privatization and marketization which requires a different management structure than socialist or communist economies which rely on the self-management approach, and often appoint management teams through political factors and nepotism. The use of these practices has created distrust between employees and management due to belief that political influences hinder true representation of business interests (Zubnov et. al. 70). Political efforts to attract FDI, increase economic health, and become a member of the European Union has stimulated a reform in management. Public sector managers generally do not support teamwork within the organization and do not rely on strict work discipline, whereas private sector managers prefer teamwork among employees and management teams and tend to believe that strict work discipline is essential (Zubnov et. al. 73). This is a relatively dramatic change from pre-1990s when Serbia had a massive public sector, to now where privatization is rapid and managers and entrepreneurs are actively seeking knowledge, transparency, and merit-based positions.

The success of business units in the Republic of Serbia will rely on the ability of management teams to encourage innovation and problem solving. The management team is an essential part of business because they are responsible for the overall execution of business strategy and the performance of employees. It is important for members of management to understand the motivations and personal factors of performance in employees to effectively guide them towards the success of the organization. Employees' motivational factors and patterns of thinking are largely rooted in cultural distinctions based on varying social influences which constitute the main differences between individuals from

one country or another (Hofstede). Successful management techniques should be tailored specifically for the group of people working in the organization, since cultural influences vary from one country to another. Implementing successful management practices in turn provides operational excellence and improved performance. To realize the potential of existing and future business in this region, this section will provide information about the generalized cultural characteristics of Serbia and the techniques that are best suited for successful management.

To qualitatively assess the cultural influence of Serbia's unique history and social system, I will use the Hofstede Cultural Dimensions which consist of (1) Power Distance, (2) Individualism, (3) Masculinity, (4) Uncertainty Avoidance, (5) Long Term Orientation, and (6) Indulgence. The Hofstede Dimensions are an appropriate characterization of values in this case because these qualitative characteristics relate to topics in international management and are a major source of research and inspiration in cross-cultural studies. The figure below shows a graphical representation of Hofstede's Cultural Dimensions, with Serbia in blue and the United States for comparison in purple.

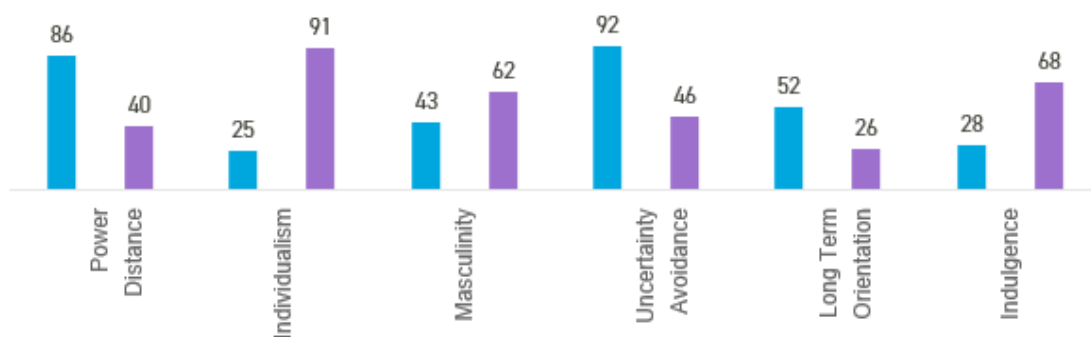


Figure #5: Country Comparison: Serbia in blue, U.S. in purple (Hofstede)

*Power Distance* is defined as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed

unequally” (Hofstede). Serbia scores high on this dimension at 86, compared to the United States’ low score of 40. This is a representation of the belief in the United States that employees expect to be treated equally and fairly and have access to the same information as those in higher positions. Serbia, on the other side of the spectrum, has a systemic understanding that different power levels and inequalities exist, and inequalities of power do not require justification but rather are inherently built into the social structure. Power distance is a characteristic that has an obvious effect on the relationship between management and employees. In high power distance countries like Serbia, people will generally expect members of management to have a high level of education, and a higher wage gap than low power distance countries (Velo).

Hofstede describes the ideal low power distance boss as a benevolent autocrat, meaning someone who has the best interests of the business and employees in mind, and the leadership ability to make demands and punish employees. As a manager or employee, the difference between high and low power distance countries is essential to understanding and assimilating to the country’s culture. Someone in the United States may be accustomed to eating lunch with their boss and participating in major decisions but would not likely have this same work environment in a high power distance country.

As a manager, working in a country like Serbia would have its benefits. For example, this score suggests that workers are eager to take direction from their boss, and it is unlikely that anyone will question authority or ask questions. In this system, the management position relies on the foundational belief that those in power are meant to “protect and mentor the lower (in power),” so work is less about employees following and more about the responsibility of those higher up to care for those lower down (Meyer). This may also prove

challenging as it means that leaders are expected to be autocratic and may have few repercussions for making the wrong decision.

Management styles in high power distance countries tend to be less participative, and “organisation pyramids are usually tall with close organisational control” (Podrug et. al.). It has also been suggested, contrary to analysis based on the Hofstede dimensions, that “today’s Serbian manager” is more willing to question authority and seek to remove some power distance within the management hierarchy, as well as invite “teamwork in which employees take responsibility for professional growth and development through active participation” (Hadzic 151 and Zubanov 76). Due to Serbia’s rapid development, it is possible that these dimensions are changing and do not entirely reflect the views of the upcoming generation though it is believed that the Hofstede dimensions are stable over time.

*Individualism* is defined as “the degree of interdependence a society maintains among its members... In Individualist societies people are supposed to look after themselves and their direct family only. In Collectivist societies people belong to ‘in groups’ that take care of them in exchange for loyalty” (Hofstede). Serbia scores low on this dimension at 25, compared to the United States’ high score of 91. A low score indicates a collectivist society, while a high score indicates an individualist society. Serbia’s societal commitment to groups may be partially rooted in historically collectivist-aligned political influence. For example, Serbia’s long history with communist and socialist political leadership. In a collectivistic society like Serbia, there are social expectations to have close relationships with a large network of people that usually extends farther than family members. This has resulted in relationships and networking being paramount to hiring and promotion decisions and

suggests that relationships between employees and managers are more family-like, an uncommon contradiction to the high-power distance orientation of the workplace.

Hiring practices are becoming increasingly merit-based in Serbia as “personal relationships are no longer crucial in the modern business environment,” and “existing managers show a willingness to build managerial knowledge and skill” (Zubанov 70). Groups in collectivist societies tend to respond positively to the supportive leadership style, which is defined as “sensitivity to individual and group needs, care for group tensions and focus on harmonic working relations,” as opposed to directive leadership which is essentially strict micromanagement (Wendt et al. 6). Another trait of collectivist society is a strong sense of loyalty. In a workplace with high collectivism, it is expected that praise and blame is given to groups instead of individuals, as group-goals are prioritized above individual ones, and targeting individual people can be perceived as overly offensive.

*Masculinity* is a polarized dimension, with the opposite end being feminine. With a low score of 43, Serbia has a feminine society, compared to the United States with a high, masculine score of 62. A feminine score on this dimension means that “the dominant values in society are caring for others and quality of life... and standing out from the crowd is not admirable”; a masculine (high) score “indicates that the society will be driven by competition, achievement, and success” (Hofstede). Hofstede clarifies that “the fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine).” The major difference between a feminine society and a masculine one like the United States is that in a feminine society such as Serbia, employees are not interested in working for wages and promotions in order to increase wealth and status but are focused on well-being and quality of life.

In the workplace, this dimension is important to consider because it reveals the nature of incentivization, for example, free time and flexibility in a feminine society or obtaining status and monetary rewards in a masculine society. Working conditions, job satisfaction, and employee participation are also important to members of countries that score high on the feminine dimension and thus are important considerations of the working force and management (Podrug).

*Uncertainty Avoidance* is best described as “the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these” (Hofstede). Serbia scores very high on this dimension at 92, compared to the United States’ low score of 46. Countries with high uncertainty avoidance are less tolerant of risk and plan carefully to avoid uncertainty. A study found that customer loyalty is linked to uncertainty avoidance, and in countries with high scores, customer trust and loyalty is stronger (Ndubisi et al.). It has also been concluded that members of a high uncertainty avoidance country are less likely to switch jobs, as they feel more comfortable with the security and familiarity of consistent situations (Hofstede). Because of these characteristics, you may find that in the Serbian workplace, employees tend to stay with the same employer for long periods of time and there will likely be many rules and regulations in place.

Since these societies tend to be more traditional and resistant to change, there is less overall innovation and acceptance of outward thinking. It is important to consider this dimension because it may be difficult for someone to adapt to the other side of the spectrum. For example, someone from a low uncertainty avoidance country like the United States may be accustomed to switching jobs every few years, taking risks, encouraging

innovation and forward-thinking, and making decisions without group consensus-- all these intrinsic actions would be unconventional in a high uncertainty avoidance society.

*Long Term Orientation* is defined as “how every society has to maintain some links with its own past while dealing with the challenges of the present and future,” and presents itself as a country’s tendency to “maintain time-honoured traditions and norms while viewing societal change with suspicion,” or invite change and modernity to welcome the future (Hofstede). Serbia scores 52 on this dimension which indicates no clear preference towards short-term (STO) or long-term orientation (LTO). Time orientation describes a society’s prioritization of the past versus the present versus the future. STO societies place more importance on the past and present, and plan for life on a small time-scale. These societies, like the United States who has a low score of 26, emphasize instant success and achieving goals quickly, as well as foster “national pride, respect for tradition, preservation of face, and fulfilling social obligations”; societies with LTO are less bound to tradition and past circumstances, and more concerned with planning for the future (Hofstede).

Since measuring the position of a country like Serbia can be difficult on this dimension because there is no clear orientation, it can be more helpful instead to compare scores between countries to determine an approximate orientation relative to other societies. By doing this, we can assess that Serbia is both more pragmatic (long-term) than the United States, but more normative (short-term) than Italy or France. This dimension is important in consideration of the workplace because it is a cultural identifier for the “extent to which a culture programmes its members to accept delayed gratification of their material, social, and emotional needs” (Podrug 822). LTO societies are less concerned with short-term monetary reward and gratification and will invest more in employee training since there is stronger job



security, while STO societies expect the ability to perform on a short-term basis with constant gratification in the form of frequent monetary rewards or promotions.

*Indulgence* is defined as “the extent to which people try to control their impulses and desires” (Hofstede). In this dimension, cultures are referred to as either indulgent or restrained. Serbia scores low on this dimension at 28, compared to the United States’ high score of 68. In this case, Serbia is a restrained society, while the United States is indulgent. Hofstede has offered a definition of restrained societies which explains that they “suppress [the] gratification of needs and regulate it by means of strict social norms” (Hofstede). Social norms can include formalities in social interactions, personal space, use of language, dress, attitude, and timeliness. Societies that score low on indulgence have a greater tendency to be cynical and pessimistic, which leads them to feel less happy and healthy and more introverted and disciplined (Hofstede). Characteristics of restrained societies include: maintaining order in the nation, lower crime rates and larger police force, lower birth rates, less obesity, and lower approval of foreign music and films (Hofstede). In the workplace, this dimension is an important identifier because it explains specific cultural expectations. For example, restrained societies prefer to delay gratification, expect material rewards for good work, easily feel treated unfairly, and find that material objects are important for status (Binschedler).

### *Building Entrepreneurial Emphasis*

Based on the performance of businesses in the Republic of Serbia, there is a demonstrated need to focus on the development and expansion of small and medium-sized enterprises (SMEs). Providing an entrepreneurial emphasis in school and promoting

economic policies that create an environment conducive to entrepreneurship encourages forward thinking, especially in the young. Entrepreneurship is important because it is a key step towards job creation and industry disruption. It is especially important in transitional economies because it can provide substantial creation of new jobs and encourages the establishment of open competitive markets (Stefanovic, et. al. 346). In this section, I will analyze the key challenges and constraints of entrepreneurship in the Republic of Serbia.

Serbia currently has an excessively high mortality rate of newly started businesses, which is the result of compounding constraints for the development and expansion of SMEs. The greatest constraining factors have been identified as “lack of financial resources, administrative obstacles, insufficient and unqualified labor, lack of information on markets and technologies, non-compliance with standards and other less significant issues” (Stefanović et al. 346). The figure below shows the main constraining factors of entrepreneurship, with one being the most intense.

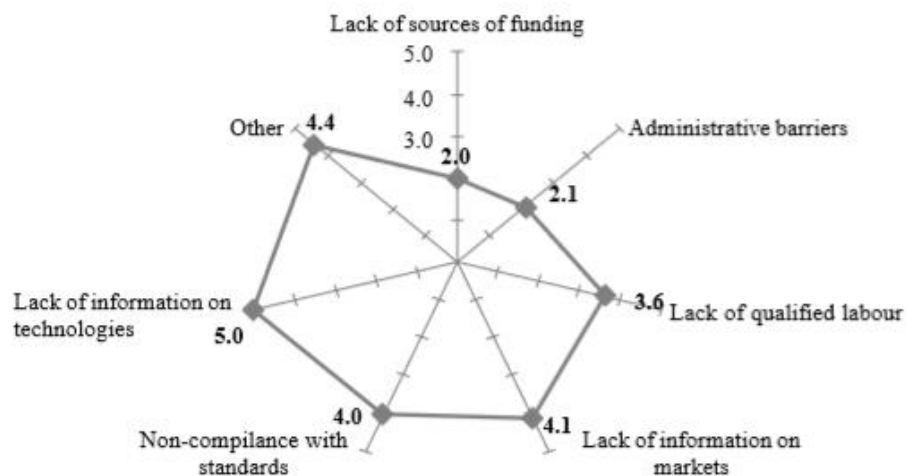


Figure #6: Main Constraints to Business in Serbia (Stefanovic)

Lack of financial resources is often listed as the most important issue entrepreneurs have bringing their business to life and keeping them going through the initial stages of growth. Entrepreneurs have high difficulty securing funds for start-up ventures because

most banks will only offer them limited loan amounts with high interest rates requiring excessive insurance against risk. Many have short credit history and are placed into a high-risk category of debtors who receive even more volatile loans. In an effort to fund their businesses, “more than 50 percent of entrepreneurs use their own funds or private loans in the process of investment” which can come from friends, family, or business partners (Stefanovic et al. 349).

After decades of state control during an era of communist leadership, many people would prefer to be employed by the state, as privatization was not encouraged, and state dependence was high. These attitudes may still exist today and widely discourage the development of entrepreneurship. Recent government efforts have shown that increasing entrepreneurship is an ongoing strategy for local state departments. For example, the Serbian government named 2016 the “Year of Entrepreneurship.” In 2016, the Serbian Chamber of Commerce presented a package of programs for entrepreneurs including financial and non-financial support. The package has been largely marketed as a broad social reformation to help “inaugurate the principles of entrepreneurship as a way of thinking in economics, education, culture, state policies and all the most important social processes” (The Republic of Serbia, “Year of Entrepreneurship”). Non-financial support includes training, mentoring, and assistance creating business plans. Research has shown that entrepreneurs benefit from external assistance plans; the most commonly used forms of external support utilized by entrepreneurs includes “legal, financial and other forms of consulting, as well as training, information support, and support for introduction of quality standards” (Stefanovic et al. 359).

Foreign businesses venturing into the Serbian market face many of the same issues as young Serbian entrepreneurs including administrative obstacles. The Republic Agency for

the Development of SMEs was established in 2004 in accordance with the Law on Promotion of Small and Medium Enterprises. This agency provides support for SMEs through professional services that help promote market competitiveness and provide access to information and financing (The Republic of Serbia, “About the Agency”). The agency was also established to help remove bureaucratic red tape by streamlining registration procedures. Though registering a business as an entrepreneurship venture can reduce some costs and require less paperwork, it is still difficult to open, close, register and re-register enterprises, and obtain all permits (Stefanovic et al. 351). Administrative processes need to be more transparent and efficient as this topic consistently ranks highly in the difficulties of starting a business. Entrepreneurs and enterprises find it difficult to survive because they are simultaneously navigating lengthy government processes and trying to focus on the growth and expansion of their business (while often times lacking sufficient knowledge to manage an effective strategic approach to financial stability). This figure illustrates the most commonly encountered administrative barriers, with 1 being the highest intensity.

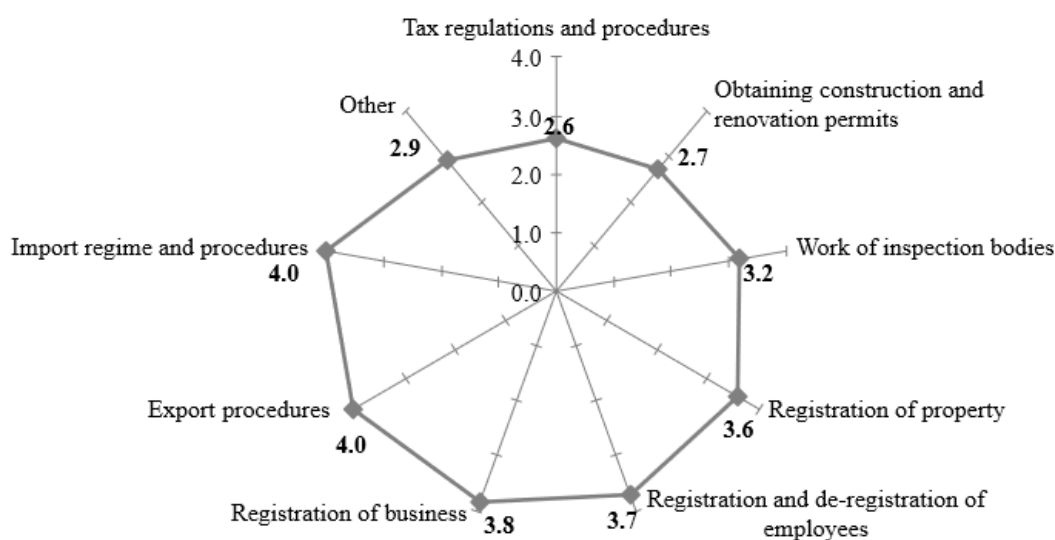


Figure #7: Most Common Administrative Barriers for Serbian Businesses (Stefanovic)

Educational institutions have an important role in encouraging entrepreneurship in students, especially in higher education business schools. These institutions should provide adequate education to prepare entrepreneurs for business endeavors including topics like product competitiveness, operational standards, and CSR. The use of these concepts should begin in the classroom and remove the need to rely on consultants. Class topics could include business management, innovation, entrepreneurial finance, and internships.

Students and business owners should be well-equipped to manage businesses and create competitive products. The main reasons for lack of competitiveness in Serbian products includes: “old technology, poor quality, unattractive packaging and high prices,” as well as “low productivity and insufficient investment in achieving business quality” (Čočkalović 148). In recent years, there has been success in introducing students to key business topics through textbooks and other class materials which indicates the influence of educational institutions in promoting concepts that will help students gain the knowledge and skills to successfully operate a business.

While entrepreneurs’ educational foundations continue to develop, the business environment lacks general information of markets and technologies. A common problem encountered by entrepreneurs in Serbia is a lack of information on and access to technology. To be prepared for the influx of tech companies looking to utilize the human capital in this area, it is important that the city infrastructure is adequately developed in major cities like Belgrade, as to accommodate businesses that will require high-tech offices. It would also benefit the communities of Serbia to introduce modern technology into high schools and universities to give students the opportunity to keep up with the demands of the technology sector. The Serbian government has major plans for infrastructure development, like the

Belgrade Waterfront plans, but many of those buildings may take a decade or more to be completed.

Connecting qualified employees to SMEs will also be an important step in stabilizing the success rate of new companies in Serbia. The Center for Advanced Economic Studies mission states that “while foreign capital is necessary, it is important to increase society’s focus on recognizing and nurturing domestic progress and organizations that show resilience and growth potential.” A strong foundation of local businesses is necessary to provide a healthy local environment. Foreign investment without local, competitive businesses could create a potentially volatile business climate. Creating organizations that have the capacity to be productive and competitive begins with having a qualified workforce.

Business leaders have identified insufficient and unqualified labor as a hindrance to successful business operations. This may be in part caused by the movement of qualified individuals to places that offer more benefits and may even begin with the transfer of skilled students to foreign countries for higher education, but research shows that Serbia contains an educated, capable workforce nonetheless. Serbia has shown success through the successful incorporation and prevalence of women in politics, education, and management, but a disconnect still exists between Serbia’s workforce and the entrepreneurs who are seeking employees for their businesses. Serbia’s current unemployment rate rivals those of countries including Iraq, Spain, Zambia, the Dominican Republic, and Brazil (Statistical Office of the Republic of Serbia).

One recommendation to retaining qualified labor includes providing clear and transparent job requirements including the promotional merits necessary for upward mobility within an industry. Hosting job fairs for local students and potential employees would help connect promising human capital to local business operations. This is important

because it could help keep people in their communities, preventing brain drain, and would help people understand careers and provide guidance for the job selection process.

Internships are another key element to connecting businesses to highly capable employees. Internships provide businesses the opportunity to network with community members and potentially retain them as full-time staff. It would also help young adults gain important skills like industry knowledge, project management, or teamwork. Lastly, it could benefit employees to have the ability to continue their education while working and have access to non-traditional educational opportunities in general.

### *Higher Education Reform*

Higher education is a much-needed area of improvement in terms of facilitating the growth rate of domestic and foreign companies in Serbia. Education is an important part of driving economic growth and stabilizing political culture. In accordance with general international standards, Serbia has a tertiary education system that resembles others across the globe. Serbia has 17 universities both public and private, 63 colleges of applied science, and 8 colleges of academic studies; Serbian citizens can attend public universities for free, and tuition is low for foreign students (“Study Masters in Serbia”). Tuition costs vary, but students generally pay between EUR 500 and EUR 2500 per year (World Education Network). In this section, I will provide an analysis of the current higher education system in Serbia and provide recommendations for further improvement.

In the Bologna Declaration (1999), a joint declaration of the European Ministers of Education, the European Union identified that a university’s autonomy and independence from political pressure is the key to ensuring that “higher education and research systems continuously adapt to changing needs, society’s demands and advances in scientific

knowledge” (van der Wende). The purpose of the Bologna Declaration was not to explain the definitive need for advancements in educational systems, but to unite European higher learning institutions to provide educations that were transferrable across country lines and create standardization for programs and measurements of educational completion and achievement. Serbia began implementing this model in 2007 in an effort to modernize and provide standardization across Europe. Serbia has higher education institutions that have been prestigiously successful for hundreds of years, especially in science and mathematics, but further development is needed to provide students with the ability to have successful careers.

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>- tradition and experience in tertiary education</li> <li>- developed network of tertiary education institutions</li> <li>- quality of certain faculties and significant number of professors</li> <li>- developed curricula in number of educational areas</li> <li>- accessibility of tertiary education</li> </ul>	<ul style="list-style-type: none"> <li>- reluctance of professors to accept change</li> <li>- insufficient involvement in extracurricular activities</li> <li>- inconsistency of quality standards</li> <li>- inadequate level of quality</li> <li>- insufficient harmonization with the labor market</li> <li>- inadequate National Qualifications Framework</li> <li>- unacceptance of foreign degrees/diplomas</li> <li>- insufficient mobility of students and professors</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>- high interest of young people in tertiary education</li> <li>- increased interest of students from the former Yugoslav Republics, Africa and the Middle East</li> <li>- accession of Serbia to the EHEA</li> <li>- internationalization of curricula</li> <li>- compliance of the outcomes of study programmes with market demands</li> <li>- increasing the quality of the study programmes</li> <li>- strategic partnerships between the public and private sector</li> </ul>	<ul style="list-style-type: none"> <li>- favorable conditions to study in some EU countries</li> <li>- permanent migration of young people abroad</li> <li>- decline of standards and underemployment of graduates</li> <li>- opening of foreign tertiary institutions without applying quality assessment</li> <li>- dropping out of tertiary education</li> <li>- corruption</li> </ul>

Figure #8: SWOT Analysis of the Serbian Education System (Vujicic)

Those who have analyzed the higher education system in Serbia have identified that the current system does not adequately provide an education that is sufficient for labor market needs requiring competency in solving complex real-life problems; because of this, a stagnation exists between graduation and successful integration into the workforce (Vujić



and Ristić 148). To provide students with an education that is directly helpful to developing careers and lifelong competency, recommendations include the development of curricula, removal of antiquated systems, and the protection of higher institutions' autonomy and independence. Lastly, it is important to note that the application of Western systems must be tuned to local circumstances to allow relevancy and accommodate cross-cultural tendencies unique to Serbia.

*a. The Development of Curricula*

Sanctions implemented by the West throughout the 1990s had an isolating effect on Serbian higher education institutions by “curtailing possibilities for international staff and student exchanges and severely restricting the flow of academic information and materials from non-Serbian sources” (Hollinshead 137). Serbia’s media outlets were targeted by NATO which further increased the deprivation of information for local citizens and universities. Higher education institutions were largely forced to rely solely on the work published by staff internally. “Institutional introversion” was present before sanctions were applied, as reflected in the standardization of curricula and teaching materials across Serbia’s education institutions, as well as many employing the same teaching staff (Hollinshead 136).

It is also noted that the traditional methods of teaching and examination allowed biases from professors to have high propensity for favorability of a select few students. The Republic of Serbia now hosts international students, though many courses are only offered in the native language, Serbian, which restricts attendance to only those from the local Balkan region. Changes to the coursework offered at universities would be a comprehensive alternative to hiring new staff and involving politics and legislation. Changes to the curricula would require a significant change in teaching and learning styles but would likely be in accordance with standardized practices throughout Europe.

The development of curricula is especially important because it will have a direct impact on the kind of information taught to students. This is important because courses need to be relevant to students' potential careers and have an acceptable level of modernity and usability. Additionally, the rapid progression of economic and political policy would benefit from a higher education curriculum that is designed to work within the limits of new systematic practices. Updating curricula would also allow for the integration of a greater variety of Serbia's future goals including programs for adult education, continuing education, and lifelong learning (transitional learning, online courses, and alternative learning programs). Developing coursework that accommodates non-traditional students would extend the reach of higher education and allow more opportunity for economic development and upward mobility.

According to the Strategy for Education Development in Serbia, the government would like higher education institutions (HEIs) to reform existing programs with the help of students and employers. This will initiate programs that prepare students for the requirements of the labor market, encourage entrepreneurship, and improve practical skills (Republic of Serbia Ministry of Education 125). For example, at business schools within these higher education institutions, the staff will be able to incorporate courses that focus on modern business practices. A "lack of managerial knowledge and skills" demonstrated by graduates of these business schools would benefit greatly from courses that introduce them to ISO 9000 standards, TQM principles, business process reengineering, Lean and Six Sigma concepts, and models for achieving business excellence (Stefanović 352)(Radosavljević 926). These are useful for identifying weak areas of businesses that need to be addressed and helps identify strong points that can be used as a competitive edge. Focusing on improving

business operations will in turn provide better results for the economy; businesses will grow and employ more people, while contributing to GDP and tax revenue.

Promoting the development of curricula also entails the procurement of modern software and hardware so that teachers and students may work in an environment that is relevant to the labor market and consistent with international standards. It is also necessary for engaging students and faculty in research and innovation development.

b. *The Removal of Antiquated Systems*

Developing new curricula to reflect changes in modern society will require the removal of antiquated systems that are currently in place. These systems range from the traditional models of organization and structure within the hierarchy of authority, to under-resourced library facilities, and the ideological vacuum that has ensued from questionable practices with teaching staff (Hollinshead 136). An original scientific paper that discusses the development of higher education institutions in the Republic of Serbia in recent years states that “one of the most significant challenges is the issue of the quality of teaching staff” as agreed by Graham Hollinshead in *The Challenge of Modernising Higher Business Schools in Serbia and Montenegro* (Vujičić and Ristić 146).

Hollinshead explains that many senior professors have no experience in education but come from long careers in varying areas such as public administration and publishing. Very few have worked in the West, and many do not speak English which inhibits the attraction of foreign students. Many of these professors worked in a business environment in the 70s and 80s and therefore have been educated to work in a vastly different system. In 2006, Hollinshead had also determined that “a major constraint on progress... was the lack of customized teaching materials in the Serbian language,” and urges the immediate translation of teaching materials such as case studies to be produced (Hollinshead 142).

Competition among universities for greater enrollment encourages them to market programs that are highly sought after by young individuals which has resulted in the hiring of teaching staff comprising of young, reform-minded individuals at some universities that have identified reform and modernization as the key to responding to local market circumstances. Beneficial modernization and reform could also include the publication of information to help students be more informed about the working environment. Materials that are specifically published to relate to the local educational and business environment would be valuable resources and could be accomplished through efforts from students and faculty.

*c. The protection of independent educational institutions*

Political pressures from the government and incumbent senior educators have threatened the autonomy of Serbian institutions through direct legislative efforts and the lasting effects of an antiquated system. In 1998, the University Act and Post-Secondary Education Act allowed the ruling party to appoint all key personnel within the university; other personnel were forced to pledge loyalty to the ruling party or be dismissed from their positions (Hollinshead 135). This action resulted in 60 professors losing their jobs at the University of Belgrade alone (World Trade Press). The following emergence of a new political party in 2001 resulted in legislation that returned autonomy to universities and set improving educational systems and standards as a high priority which has stayed with the government. Serbia has struggled to meet standards, but in 2012 published the Strategy for Education Development in Serbia 2020 (Republic of Serbia Ministry of Education) which is an incredibly comprehensive, 265-page file that details the government's goals for continued improvement in education and sets definitive goals for the year 2020.

The objectives of the SEDS 2020 are as follows: “(1) raising the quality of the process and the outcomes of the education to the highest attainable level...(2) increasing the

coverage of the Serbian population on all levels of education, from pre-school education to lifelong learning; (3) reaching and maintaining relevance of education... by harmonizing the structure of the education system with the immediate and developmental needs of individuals, economic, social, cultural, research, education, public, administrative, and other systems;” and “(4) increasing the efficiency of the use of educational resources, that is, the completion of education on time, with minimal extension and reduced dropout,” in addition to other, more specific goals for different parts of the education system (Republic of Serbia Ministry of Education 32). The Serbian government plans to accomplish these goals by providing quality teaching staff, accreditation to quality educational institutions, and increasing public funding for education.

The previously mentioned objectives were set with the entire education system in mind, but those who developed the strategy also discussed the development goals of higher education institutions (HEI) at length. The Republic of Serbia has in its interests to increase the number of citizens with tertiary education, while simultaneously increasing the performance of the higher education system. They plan to work closely with the principles set in the Bologna process and Lisbon Recognition Convention to implement standards and curricula that is compatible with the rest of Europe. To promote a more “valid structure,” their goals are to improve teaching and researching processes, increase the autonomy of HEIs, redefine the conditions for accreditation of institutions, and improve higher education access. One particularly noteworthy SEDS 2020 goal is the stated intention to delegate an external group to perform the quality assurance and accreditation process for HEIs that “operates independently of the academic community and the ministry,” (Republic of Serbia Ministry of Education 124). They also plan to require the founders of HEIs to reform the teaching staff selection process, and to provide published criteria as well as transparent

appointments. These are exemplary recommendations for the improvement of HEI autonomy.

Young people have a high interest in obtaining degrees to create employment opportunities for themselves. Many of these potential students end up leaving the country to pursue educational and career opportunities in nearby European countries. Harmonizing standards and programs in the Republic of Serbia to those of Europe will help recreate the favorable conditions that draw students away but may also impede on the specificity of local culture. In other words, it is essential that the application of Western efforts be tuned to local circumstances. There is a need for deep cultural understanding to be able to select learning paradigms that are appropriate for cross-cultural education; because of this, programs that are mirrored from Western countries may not be entirely productive, requiring careful refinement from those who are familiar with local conditions. Without this intermediary advisory step, vastly different cross-cultural understanding with the West will make for disjointed educational and reformative efforts.

Western higher education in business practices and other areas is modernized and effective, so it should be utilized but implemented in a way that is “tuned to local circumstances.” As Hollinshead writes, there is a “pressing need for the former to empathise with the situated position of the later,” which can be interpreted as the need for the translation of Western efforts not only in language but culture as well, which can be accomplished with the use of local specialists and top-professionals working closely with reformative efforts (Hollinshead 133). Just as it is important for HEIs to maintain autonomy from political pressures and incumbents, it is also important to maintain autonomy from other groups who may exert excessive influence and demand exorbitant regulation and standardization.

*Integrating E-commerce and Technology*

The period of time following the new millennium has required a rapid shift for integrating e-commerce and technology into markets, workplaces, and domestic households. High-speed internet and technological devices are essential for business development, and the growth of the economy. In 2014, it was reported that 62.8% of Serbian households had an internet connection, and this number has grown stagnantly with growth of only 5% reporting a total of 68% of households in 2017 having an internet connection (Statistical Office of the Republic of Serbia). This number is low for developed nations considering 87% of households in the United States have internet access, but normal for the region where neighboring countries report similar numbers (Statistical Office of the Republic of Serbia). Since internet and technology are an underdeveloped market in Serbia, it poses the potential to both attract and grow businesses and improve the technological infrastructure.

The potential for expansion in industries like internet and e-commerce is very limited in Europe due to its rapid development and saturation, but in Serbia, it is underdeveloped and not yet saturated by foreign businesses. Ability to access competitive, high-speed internet is important to maintain Serbia's position as the technology hub of Eastern Europe, and to provide a consistent level of competitiveness for local companies in the global market. For some reference, Serbia scores the lowest of all EU member states in reported household internet access (Milovanović). Stronger competition in this industry would improve the quality of services offered. Residents currently have access to a limited number of providers, which has resulted in high prices and low quality relative to other areas. Serbia should be an area of interest for businesses in this industry.

Serbia has an established and growing need for access to top-rate technological infrastructure. The development of successful companies and products in the field of IT has established the area's tech-focused dominance, and the government's high interest in continuing to attract tech-based businesses will require continued development of technological infrastructure. Doing this will continue to attract these companies by providing a suitable environment for their operations. For example, urban planners are working hard to provide new construction in Serbia that is suited with high quality fiber optics and real estate that can house major tech operations. These businesses will also aid in the modernization of businesses in all industries through the increased development of IT (Domazet and Lazić).

Continued focus on the development of tech infrastructure is also an area of high-priority because of an increase in the number of students enrolled in IT programs in high schools and universities as a result of the growth of popularity in the IT profession (Domazet and Lazić). In an effort to maintain students' interest in developing these skills and advancing the availability of high-level skill development, it is recommended that the government and school systems increase the capacity of their IT oriented facilities (Domazet and Lazić). Creating an opportunity for local citizens to become valuable human capital through the acquisition of high-level IT skills is also essential to providing a suitable environment for tech businesses. Highly capable individuals in the workforce is a major attraction to the Serbian market, and an increase in business operations in the area will require the equivalent increase in such individuals. This can only be accomplished if students have adequate access to systems that can provide them with the necessary experience to be successful in IT careers. Success in modernizing tech systems will allow the government of Serbia and higher education institutions to promote Serbia as an ICT destination. The



government should emphasize the development of E-government. Using internet technology would allow quick and easy transactions between government, businesses, and civilians.

“Many key global players such as Microsoft, SKF Group, Adobe, Oracle, Google, Hewlett Packard, SAP, IBM, Siemens, Intel, Cisco, NCR Corporation, Erickson and others, have already tapped into this potential, either by establishing their development centers in Serbia or outsourcing services to local IT companies” (U.S. Department of State). In order to continue to meet the needs of the growing technology sector, it will be critical to continue to improve, “education, infrastructure and the legal framework for the development of the ICT industry” to provide the number of professionals in this industry that will be needed to keep up with demand in the market and to help encourage technological advancement in other fields (B92, “ICT Sector”). Doing this will ensure that students are learning the appropriate material to be successful, and the infrastructure will be set to accommodate businesses in this highly sought-after industry. There is also a need for high-tech spaces to conduct business which would involve major infrastructure development. This is coupled with a need for more high-speed internet access and increased internet privacy and security.

The ICT sector has strong prospects for further growth and the potential to become a leading industrial sector in the near future, since it has been increasing exports at double digit rates in recent years and is one of the areas with the largest government interest. Intensification of FDI towards the ICT sector unambiguously indicates that foreign investors see Serbia as a country that can accommodate their human capital and other resource needs.

Local businesses would also benefit from the modernization of systems and will find it necessary to be competitive in the global market. In Potentials of Electronic Business

Development in Serbia, written by economics professor Slavoljub Milovanovic, he argues that “web technology opens vast new markets for every company and extends a significant degree of power to companies that recognize how to leverage the efficiencies of this new technology” (Milovanović 433). In 2014, 59.5% of internet users in Serbia had never used the internet for e-commerce purposes, more recent data from reliable sources was not available, though statistics show that the total number of internet users has remained relatively stagnant since 2014 (Milovanović 438). It is important to note that while internet usage is low, 90.6% of Serbian citizens use mobile phones and access to mobile internet is high (Vukanović 75)(Milovanović 437). If local citizens do not show interest in participating in e-commerce, businesses need to develop marketing campaigns that build buyers’ interest in finding and purchasing goods using the internet or implement systems within their business that allow for e-commerce transactions. Professor Milovanovic believes that “there are good technical potentials for implementation of e-business... because almost all organizations have internet connections and use internet technology” (Milovanović 440). Statistics show that 98% of Serbian businesses use computers and have access to the internet (Domazet and Lazić). Many businesses use the internet for their B2B transactions or internal transactions, but still need to communicate this purchasing outlet to customers in local and international markets.

The Serbian market has huge potential for engaging in online purchase transactions. There currently exists a major deficit in the number of locally-operating businesses that have online platforms for purchasing. This is a particular area of interest because it would stimulate economic activity and would be relatively easy for existing businesses to implement. Using tech systems in business can also be used to benefit businesses by allowing for more efficient and modernized systems for Supply Chain Management, Customer

Relationship Management, and Enterprise Resource Planning (Milovanović 433). Only 5% of companies in Serbia have development ERP and CRM systems (Domazet and Lazić). These systems are important uses of technology in the modern business world and can be used for growth, expansion, and overall success and competitiveness.

A prime example of Serbian businesses taking advantage of technology to benefit business processes is the BioSense Institute of Novi Sad. This company is responsible for creating what is known as a digital farm and uses many different types of technology to optimize the everyday organization of the business. The BioSense Institute combines Serbia's two burgeoning industries, Agriculture and IT, to utilize "micro and nanoelectronics, communications, signal processing, remote sensing, big data, robotics and biosystems, with a common goal to support the development of sustainable agriculture and create a positive impact to the lives of people" (BioSense).

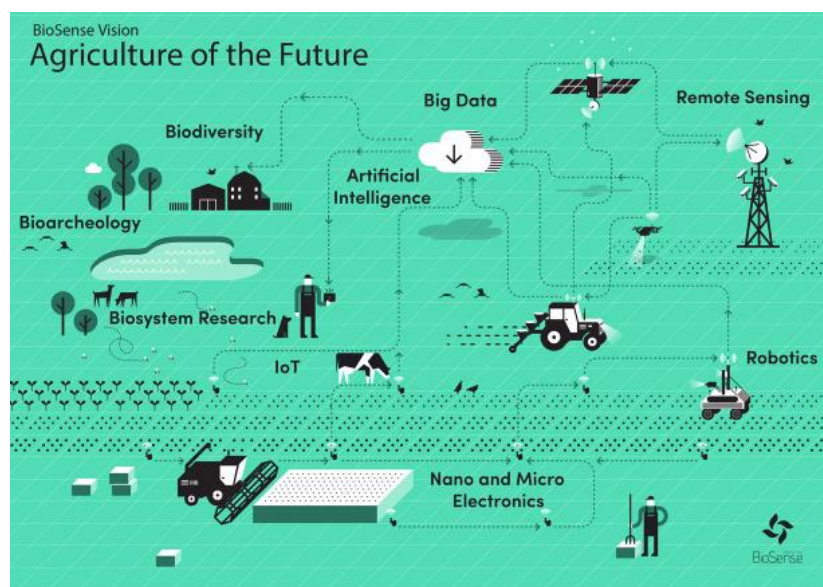


Figure #9: BioSense-- Agriculture of the Future (BioSense)

BioSense helps small farms create interconnected cooperatives to increase profitability, help investors understand more about the market conditions, help chemicals vendors understand plant health and forecast crop structure, and help the government create

strategic and educated policies concerning one of the country's largest industries (BioSense).

BioSense provides an exemplary template of the importance of business and technology.

Using advanced technological systems can be beneficial to businesses in any industry.

### *Building Urban Accessibility*

Urban planning is essential to developing long-term motorized and non-motorized accessibility within cities. Highly varying architectural interests have created a unique dynamic within the inner-cities of Serbia; the area is dominated by agricultural life, but also shows infrastructure left behind from the Ottomans, and massive modernist architecture that was developed during the communist era. In Skadarlja, Belgrade, centuries-old cobblestone roads meet the “capital of cool” which has developed as the result of growing accessibility to high-tech realty and a national drive to perform higher in technology markets (Kilibarda). GTC's FortyOne office building in New Belgrade was more than 60% pre-leased and one of few offering spaces in a realty market with close to 0% vacancy (Development Agency of Serbia). Realty is cost-effective even in downtown locations, but highly sought after by international and local businesses. Infrastructure development has been rapid in the inner-city and emphasized residential and business spaces, as well as shopping centers which have vacancy constantly close to zero.

This type of planning, however, does not bring Serbia a sustainable city-structure to withstand the long-term effects of urbanization. The keys to successful urban planning are, “(1) clean water and good sanitation, (2) clean air, (3) clean land, (4) safe homes, (5) secure neighborhoods, (6) car-independence, (7) green and blue spaces, [and] (8) healthy facilities” (Rydin). Inner cities in Serbia currently have a lack of green spaces and affordable plans for maintenance. Most city parks are small and poorly maintained. New Belgrade has greater

potential for the development of affordable green and blue spaces because the inception of the city plan was more spacious than Old Belgrade, an influence from the modernist architecture. New Belgrade also has a modern transport system. New Belgrade has been somewhat of a unique opportunity for urban planners because of its recent development, availability of space, and desire to make it an attractive location to expand the city across the river. Access to stretches of waterways is an important element of the Belgrade city structure because it provides an important area for citizen recreation and tourist destinations. The waterways could also potentially be used for hydroelectric power plants and dams to reduce reliance on foreign energy trade and therefore reduce direct political influence.

An important factor to consider during urban development and land allocation is heritage protection and restoration. Serbia is home to many important cultural sites that comprise some of the first human community settlements and well-preserved fortresses and natural landscapes which make attractive tourist destinations. Because of this, laws have been passed both nationally and internationally to preserve important historical sites. The development of urban cities is usually modern-centric and builds spaces without consideration of the historical aspects of the area. In Serbia, the historical semblance of the cities is inescapable, and a major draw to the region.

The river separating Old and New Belgrade has created a natural disconnect for transporting people from one to the other, but they are also separated by a stark difference in urban planning and architecture design. The environments are rather isolated and have provided different needs for land use allocation and traffic development. Throughout Serbia, continued development of roadways is needed to update existing roads and provide means for the transportation of goods and people. The inner-cities show clear signs that rapid urban transformation has caused issues and requires cooperation and planning (Gligorijević).

High auto traffic, lack of public and alternative (non-motorized) transportation and alternative modes of transportation, and minimal parking space are the main issues encountered with transportation. Businesses interested in commercial transport have also expressed interest in the development of air transportation or the construction of a new airport to accommodate the expansion of business transport.

Cities all around the world are combating the issue of traffic in order to decrease the loss of time experienced by citizens who travel, and to decrease the emission of pollutants. Serbian politicians and citizens have shown great interest in building a subway in the capital, Belgrade, though while many formalized plans and timelines have been published, in addition to funding secured from Russian interests, official building has yet to begin. Other countries in Europe have shown a dramatic increase in car ownership following accession to the EU (Basarić et al.). This trend, when extended to Serbia, shows that the issue should be addressed immediately in anticipation of the effect seen in this area as a result of joining the EU. Directly charging the citizens who use the roads through increasing parking fees is an effective way to reduce car use during peak traffic times (Basarić et al.).

This could also encourage the use of public transportation and alternative modes of transportation, including non-motorized transportation like bicycles. The Serbian government has already attempted to rebuild certain roadways to increase the traffic flow and control parking, but public transportation is still weak. If the government is able to allocate funds to the improvement of public transportation services, then increasing the amount of information available about public transportation and developing marketing schemes could increase citizen use of these services therefore reducing congestion, auto accidents, and pollutant emissions. It is clear that there is minimal research in the area of urban accessibility in Serbia, but it is clear that it should be a priority for the government to

update the infrastructure and make the utmost effort to incorporate sustainable urban planning into future city developments.

### *Removing administrative barriers*

Both developed and developing nations are burdened with the task of creating governments that are able to systematically implement regulations for the benefit of the community while maintaining an appropriate level of simplicity and achievability. For a country like Serbia, it can be more difficult than others. When it comes to intergovernmental rules and regulations for starting and operating a business in Serbia, the system very much resembles the United States' complicated system of taxation. For Serbia, this is largely the result of overlapping legislation left behind from one widely-varying political reign to the next without removing the redundant or obsolescent. Administrative barriers are one of the most prevalent issues for starting a business or attracting FDI. In the highly competitive EME market, it is essential that Serbian politicians bring together the public and private sectors to address what is necessary to remove this barrier to economic growth and job creation.

The Development Agency of Serbia has an interactive website that contains an "Investment Locations Database," and "Serbian Suppliers Database" as well as information on how to start a business including links to download registration forms online through the Business Registers Agency. The website's link to information about the construction process (zoning and building code requirements vary by country) is currently "under construction" although the consequent link to "Office Space Market" information provides statistical data about current and future development projects. According to the website, "the business registration procedure in Serbia takes maximum 5 days, down from the previous 23."

Statistics from the World Bank Doing Business database shows similar results from 2017 with starting a business “lasting seven days with only five procedures consuming 6.5% of per capita income” (The World Bank).

The World Bank rankings place Serbia at 32 of 190 countries, and places them at a Distance to Frontier (DTF) score of 73.13 and rank of 43, scoring higher than comparator economies: Hungary, Bulgaria, Croatia, Greece, and Regional Average of Europe & Central Asia (The World Bank). This scoring indicates positive upward mobility for Serbia over the last decade, and superior efficiency compared to similar economies.

While the World Bank concedes that “setting up a new company is an easy and inexpensive task” the *Bertelsmann Stiftung’s Transformation Index* (BTI) has published comprehensive political and economic reports on 129 countries including an analysis of the administrative barriers to investment in Serbia. The BTI shows that the process of starting a business is acceptable, however, “there are many burdensome procedures and overlapping authorities, as well as a high incidence of corruption among state officials and bureaucrats” (BTI). The BTI report also shows that since 2014, the Serbian government introduced economic and fiscal reforms aimed at streamlining start-up processes and the inclusion of e-government (BTI).

In 2006, Jacobs and Coolidge published “Reducing Administrative Barriers to Investment” through the *Financial & Insurance Advisor Services* (FIAS) and the *World Bank* which identified the main administrative barriers to investment as start-up procedures and operating procedures. Start-up procedures include registration, licensing, and funding, and extends into locating procedures such as construction, land registration, development, building permits, utilities, and inspections. Operating procedures include reporting, taxes, obtaining certifications, labor regulations, and inspections. High-risk administrative barriers



in the Serbian business environment would include funding, licensing, permits, construction, utilities, employee reporting, taxes, and the judiciary system. Serbia scores low in the Doing Business rankings for getting electricity, registering property, getting credit, protecting minority investors, and enforcing contracts, but scores well in the other categories. Jacobs and Coolidge determined that there are “Seven Good Practices” essential to good governance and reducing administrative barriers. These practices are:

1. Adopt a multiyear time horizon for implementation
2. Give reform oversight and management authority to a body that cuts across the whole of government
3. Actively manage and obtain resources for the reform process
4. Ensure that the reform process actively involves the responsible ministries: working collaboratively and seeking input rather than implementing a top-down reform
5. Carry out an ongoing business-government dialogue
6. Institutionalize the monitoring of results, “the best approach may be to help develop a private sector monitoring capacity”
7. Work with expert international bodies knowledgeable about good practices used in countries facing similar problems.

In Serbia, judicial appointments are especially problematic because of nepotism, corruption, and political influence. This has impacted businesses and foreign investors negatively because the courts are slow, inefficient, and biased. For example, the BTI has found that, “anti-corruption policy is not consistent, since there are few judicial verdicts regarding high state officials, and envisaged activities and measures from the anti-corruption strategy and action plan are not fully implemented”; the index report also noted that cases

found guilty of corruption or similar felonies are very rare. Allegations of corruption among politicians are especially volatile because they can be used as a political weapon to discredit politicians (BTI).

According to Jacobs and Coolidge, other countries have had success in reducing administrative barriers through substantial investments from the government and other efforts; for example, Croatia developed a comprehensive guide for construction-related procedures, Latvia now requires visit reports from inspectors to encourage fairness and transparency, and Uganda has increased the number of judges assigned to the commercial court in an effort to decrease the time-burdens of the local legal system.

Serbia's National Anti-Corruption Strategy was first enacted in 2005 and is frequently revisited and updated by the National Assembly of the Republic of Serbia (The Republic of Serbia, "National Anti-Corruption Strategy"). The legislation acknowledges that corruption is widespread and references the Transparency International CPI rankings which were mentioned earlier in the SWOT analysis. Updates listed in the introduction of the strategy's formal document concur that judiciary reform is not satisfactory, as well as identifying privatization and public procurement processes, insufficient transparency of media ownership, and lack of public involvement in legislation as other areas at high-risk of corrupt practices. The strategy is a five-year plan (2013-2018) and includes an action plan for implementation of the objectives; The Ministry of Justice and Anti-Corruption Agency are responsible for monitoring implementation of the strategy. Recommendations noted include improving journalistic ethics and encouraging postgraduate research into anti-corruption.

Transparency International is an important resource for anti-corruption efforts as they have published many articles with recommendations on how to stop corruption. According to an article published in 2016, "How to Stop Corruption: 5 Key Ingredients,"

one important element to ending corruption is building a strong law enforcement branch that can act independently to implement anti-corruption measures. They also suggest focusing on transparent budgeting and auditing as in other cases these have “achieved greater impact than public sector reforms on curbing corruption”; this transparency should extend to the government as a whole, and the media. Transparency International also suggests empowering citizens so that they feel the need to hold those in power accountable, while also building the trust to bring whistleblowers forward. Their final suggestion is to closely monitor the financial systems which make it possible for public officials to launder illicit funds.

Empirical research from Van Rijckeghem and Weder (2001) shows that there is an inverse relationship between “relative civil-service pay and corruption,” meaning that raising the wages of public employees may help fight corruption by changing their motives and incentives (Van Rijckeghem et al.). Very little information exists about the average wage for civil servants in Serbia, but in relation to the local minimum wage and average salary, it can be assumed to be low and highly taxed. Other empirical research has shown that the internet can have a positive effect on corruption by “facilitating economic growth, human capital accumulation, the dissemination of information, and e-government” in addition to other possible factors such as, for example, reducing the number of interactions between officials and civil society quite literally distancing the possibility of corrupt transactions (Anderson et al.) (Lopez-Claros).

The emergence of internet services in Serbia also has the potential to reduce administrative barriers to business by reducing the amount of time it takes to process obligations with government entities. An effective e-government system could allow citizens to complete business transactions such as licensing and registering a business, or tracking

applications online (which would also help maintain accountability). Part of good governance includes removing unnecessary regulations, providing transparency for all transactions, and providing an unbiased environment. IT provides cost effective, paperless solutions to these motives, and could even provide valuable services to businesses owners by offering additional information and advice.

### *Prospects of EU Accession*

The prospect of joining the EU has been a catalyst for an immense amount of political change within Serbia. In anticipation of the convergence, Serbia has already made a wide array of efforts towards updating and standardizing legislation which has positively benefited the economic and business climates. The reforms were no simple feat, often causing division among political party lines and creating a complex legal system to be adopted by local enterprises. The government also made many difficult concessions that likely would not have happened otherwise including turning in those accused of war crimes to the International Criminal Court, mending relationships with neighboring countries, and defusing de trop nationalism. Many Serbian citizens, especially politicians, will be disappointed if joining the EU does not provide certain expectations and benefits.

The most important perceived benefits for Serbia are increased foreign investment and economic growth. Joining the EU will provide Serbian-based companies access to a substantially larger market. It is also expected that certainty, foundation, enforcement, and transparency of laws would raise investor confidence. It may also encourage member countries and businesses to partner with those of Serbia, increasing competitive advantage for both parties. By studying the effect of EU accession on Bulgaria and Romania, Milena Nikolova and Boris Nikolaev were able to determine the following model for the beneficial

effect of membership. The categories include modernization, economic outcomes, perception of freedom of choice, and social identity. While these effects most significantly benefit the young, and alternatively benefit older populations the least, subjective well-being increases after joining the EU for these reasons.



Figure #10: Positive Effects of Joining the EU (Nikolova, Nikolaev)

Legislation converged with European standards provides a modernized legal system. For example, while Serbia has “largely aligned its domestic environmental protection legislation with EU rules,” they still need to improve waste management, air quality monitoring, and river basin management to meet sufficient levels of environmental standards (BTI). Modernization is also achieved through the import of new technologies, partially due to cheaper goods via trade agreements. Technological improvements could also include the introduction of more efficient processes and infrastructure to the manufacturing industry.

Gains in GDP per capita should help provide stability to long-term economic growth. Other economic benefits should include increased life satisfaction, employment, and wage increase (Nikolova and Nikolaev). In addition to this, citizens have increased economic opportunity through the free-movement principle of the EU, which will allow them to

travel, work, and study freely across Europe. While free movement may also encourage brain drain, increased cost of living and competitive pressures from foreign companies are greater threats to the Serbian economy.

To achieve EU accession, Serbia must normalize ties with Kosovo through long-term, legally binding means. One major roadblock to this is that most Serbians would rather withhold from the EU than recognize Kosovo's independence (Bershidsky). Serbia applied for membership to the EU in 2009 after approval of the Stabilization and Association Agreement (SAA) the year before. It was not until 2012 that Serbia received candidate status which cited 35 topics of interest for normalization negotiations. Six initiatives for accession include: rule of law, security and migration, socio-economic development, connectivity, digital agenda, reconciliation and good neighborly relations; within these categories, it is imperative that Serbia normalize relations with Kosovo, improve the judicial system, and tackle bribery and corruption (Winfrey and Stearns). Jean-Claude Juncker, the head of the EU's executive arm said that the prospect of rapid accession should be "an encouragement so that the parties concerned will work hard to follow that path" (Juncker). Serbia can expect to join as early as 2025 (Winfrey and Stearns).

## **Conclusion**

By exploring the suitability and benefits of doing business in this market, it has been possible to fill the information gap that exists for this geographic area of the world. Numerous recommendations for improvement of current educational, economic, and political systems have been introduced within the model which present a detailed characterization of the business environment. Over the course of this paper, the focus has

been to encourage the initiation and improvement of business relations in Serbia which has been presented throughout the SWOT analysis and subsequent model.

The first major point is that there exists a mutually beneficial relationship between investors in a foreign market and the local economic environment. Foreign investment encourages job creation, competition among businesses, and increased GDP which helps fund public programs and urban development. The investors gain access to a new market which could introduce new capabilities and activities to the firm or provide a competitive advantage through increased market share.

The Serbian government should be cautioned against escalating the Kosovo conflict as this subject is highly interdependent on international perceptions and it is strongly advised to move towards resolution. They should also monitor public financial burdens and avoid over-leveraging capital in the public sector and massive urban development projects that fall beyond acceptable profitability. It is also expected that increased competition following accession to the EU will strain domestic businesses in local markets and exports. Further research on the effect of accession on domestic competitiveness is recommended.

Regarding the research of Geert Hofstede on cultural dimensions and how they affect the workplace, Serbia's business culture is trending towards increasing the importance of specialized knowledge, transparency, and merit-based promotions. They are also making efforts to encourage innovation and problem solving in employees. Based on Serbian cultural dimensions, Serbian employees tend to expect a higher wage gap between positions as they increase in rank, and bosses usually have strong influence over employees' decision making. Employees are less likely to question this authority or ask questions, and will expect a leader to direct them towards the company's goals. While the management style is traditionally top-down, it has been trending towards strategy as planned emergence.

Socially, people are expected to have large networks of people in their inner circles. Collectivistic people tend to have a strong sense of loyalty and therefore spend as many years with the same company as possible. In this culture, the reward of work is based on wellbeing and quality of life as opposed to material goods, promotions, and accomplishing goals. There will also be more rules and regulations, and people will generally be more resistant to change than in some other countries, like the United States.

Serbia has recently been trending towards increased entrepreneurial emphasis. Allowing entrepreneurship helps increase job creation and competition among firms which forces them to differentiate, innovate, merge, or use competitive pricing practices. These entrepreneurs, however, are heavily discouraged from entering the market or surviving long enough to achieve profitability because of a widespread lack of financial resources, overbearing administrative barriers, and having inadequate educational opportunities.

The removal of administrative barriers is needed to reduce the amount of time it takes for the registration and procedures associated with a business. In order to accomplish this as well as decrease the amount of corruption and bribery within the government, the “Seven Good Practices” developed by Jacobs and Coolidge can help governing bodies plan and implement better legislative efforts. Joining the EU will also help bring stability as well as encourage modernization, economic expansion, freedom, and strengthen social identity (Nikolova and Nikolaev). Accession is expected by 2025.

It is also important to note that the increase in technology sector firms will require more advanced technology infrastructure and urban development accommodations. As with most large city centers, the government should proactively work to plan growing cities to aid growing populations and use of roadways.



While Serbia has some economic and administrative weaknesses that negatively affect their business environment, the market growth potential, legislative progress, and geographic location make good conditions for the operation of small and medium sized enterprises. The area is rich in history and culture which provides a diverse environment that attracts people of many different backgrounds. Now is a better time than ever to consider Serbia because of their talented human capital, improving economic conditions, geographic location, and impending accession to the EU. After joining the EU, competition and saturation of the market will be higher, and the free movement of people may encourage brain drain.

Regarding the research of FDI in Serbia, there is a need for future research on effective policy development that will standardize with laws across Europe and benefit citizens. The future perspective of neighbor relations will also require close monitoring--many Serbian citizens reject the notion of giving up Kosovo, and do not believe that joining the EU will have any tangible benefits. For further reading on the subject of FDI and economic development in Serbia, the Center for Advanced Economic Studies (Centar za Visoke Ekonomske Studije) has a number of ongoing projects, completed projects, and publications with a compelling philosophy for regional development: "while foreign capital is necessary, it is important to increase the society's focus on recognizing and nurturing domestic processes & organizations that show resilience and growth potential." This is a particularly cogent argument because it provides a balance between foreign influence and dependence, and a country's ability to be self-sufficient and augment its domestic operations with foreign investment. Maintaining local culture and protecting local businesses from competition becomes more difficult as FDI increases. Foreign investment can be incredibly lucrative, but it requires a thorough economic climate analysis. Understanding the elements

of a business climate that are presented in this paper are essential for reducing risk in investments and creating maximum sustainable competitive advantage.

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